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## **Tracing inclusivity: Contribution of the Dutch private sector to inclusive development in Kenya. Case study of Unilever Tea Kenya Ltd., the flower sector and Lake Turkana Wind Power project**

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## Summary

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### I. Introduction

This thesis investigates the potential contribution of the Dutch private sector, and supportive Dutch Private Sector Development (PSD) policies, to inclusive development in Kenya in three sectors: tea, flowers and renewable energy. It is part of a larger research project entitled “Dutch Multinational Businesses, Dutch government and the promotion of productive employment in Sub-Sahara Africa: a comparative study of Kenya and Nigeria”. The project was part of the research agenda of the Knowledge Platform on Inclusive Development Policies (INCLUDE), funded by the Ministry of Foreign Affairs through NWO-WOTRO.

For the purpose of this research, inclusive development (ID) is broadly understood as development that “aims to reduce poverty and inequality” (INCLUDE, 2019b: 5) and it is considered in its economic, socio-cultural, spatial, ecological and political dimensions (Awortwi & Dietz, 2019; Bebbington, 2013; Gupta, Pouw, & Ros-Tonen, 2015). This thesis also acknowledges the importance of distinguishing between inclusive development outcomes and inclusive development processes (INCLUDE, 2013; Islam, 2019; Rocha Menocal, 2017b).

The increased interest in the concept of inclusive development in the last decade, in both academic and political circles, is a result of the recognition that the poorest groups have not benefited enough from economic growth, especially in sub-Saharan Africa (AfDB, 2015; Altaf, 2019; AUC/OECD, 2018; de Kemp & Lobbrecht, 2018; INCLUDE, 2019b). Sustainable and inclusive development is a core principle of the Sustainable Development Goals (SDGs) current global development agenda adopted by all United Nations Member States in 2015 (Gupta & Vegelin, 2016; Osakwe & Moussa, 2017). To achieve ID, as per the SDG agenda, the private sector was identified as one of the main strategic partners (UN, 2015). Based on the growing recognition of the role of the private sector in the development process, many member countries of the Organisation for Economic Co-operation and Development (OECD) have been scaling up their Private Sector Development (PSD) programmes as part of their Official Development Assistance (ODA), among them the Netherlands. The Dutch government has been continuously supporting policies and initiatives stimulating private sector and economic development in developing countries since the inception of its bilateral aid. The main underlying assumption behind the Dutch PSD policies (of 2015 but indirectly, also assumed since the 1960s) was that “with good accompanying policies, economic development and trade are the motor for poverty reduction” (MFA, 2015b) with Dutch companies creating (productive) jobs and promoting CSR in the ‘home’ and ‘host’ country. Nevertheless, the evidence supporting this hypothesis so far has been thin.

The private sector can contribute to inclusive development in a number of ways but its most prominent contribution is in generating (productive) employment and providing corporate social responsibility (CSR) programmes to the communities that they work with (Goris & Vrancken, 2018; Gupta & Vegelin, 2016; Kapstein, 2008; Kolk & Lenfant, 2018; Kontinen & Spierenburg, 2008; Kourula, Pisani, & Kolk, 2017; Osakwe & Moussa, 2017; Porter & Kramer, 2011; Scheyvens, Banks, & Hughes, 2016; UN, 2015; Utting & Marques, 2010). Productive employment is defined as employment yielding sufficient returns to labour to permit the worker and her/his dependents a level of consumption above the poverty line (Szirmai, Gebreeyesus, Guadagno, & Verspagen, 2013). Nevertheless, despite general agreement that the private sector, including multinational companies (MNCs) operating in developing countries, has an important role to play in reducing poverty and inequality, to date an explicit link between the international private sector operations in developing countries and their contribution to inclusive development (in terms of outcomes and processes) has been little explored in academic literature. The discussions that aim at defining this role often fail to adequately consider key contextual, historical, political and institutional aspects and therefore remain inconclusive (Boyle & Boguslaw, 2007; Fortanier & Kolk, 2007; Kolk & Lenfant, 2018; Kolk, Rivera-Santos, & Rufin, 2018; Meyer, 2004; Oetzel & Doh,

2009; Utting & Marques, 2010). Consequently, more research that uncovers the context and underlying dynamics of the international private sector operations in developing countries, especially in Africa, is needed (de Haan, 2015; Kolk, Kourula, Pisani, & Westermann-Behaylo, 2020; Kolk & Lenfant, 2018; Lashitew & Van Tulder, 2017).

This thesis aspires to make a contribution to reducing these gaps of knowledge by:

- **Firstly**, exploring a possible contribution of the Dutch private sector in Kenya to 5 dimensions of inclusive development (economic, socio-cultural, spatial, ecological and political); both in terms of outcomes and processes.
- **Secondly**, investigating the theorised assumption presented by the Dutch government in their PSD development policies that established a causal mechanism between increased economic collaboration stimulated by development policies (bilateral aid, exports and direct involvement of Dutch private sector in developing countries), and the creation of (productive) employment, thus contribution to inclusive development in developing countries.

This will be done by studying three important economic sectors in Kenya and by analysing their context, their underlying dynamics and their level of inclusiveness. More importantly, challenges for a greater inclusiveness in these sectors and the role of Dutch MNCs and Dutch PSD development policies in this process will also be explored. The case studies for this research were selected from a pool of 57 Dutch MNCs operating in Kenya in 2014, based on the presumed significant contribution of each sector to direct or indirect employment creation in the country. The selected sectors and respective case studies are as follows:

- The tea sector: the case of Unilever Tea Kenya Limited (UTKL) (covered in Chapter 3);
- The flower sector (a sector-wide analysis) (covered in Chapter 4);
- The renewable energy sector: the in-depth case study of Lake Turkana Wind Power (LTWP) project (covered in Chapter 5).

The analysis of the case studies acknowledges that governance, political economy and political settlement factors may play a significant role in shaping development processes and generating and/or exacerbating constraints to achieving inclusive development outcomes (Awortwi & Dietz, 2019; Hickey, Sen, & Bukenya, 2015; Rocha Menocal, 2017a).

## II. Contribution to knowledge and practice

The study is timely and relevant to academia and the Sustainable Development Agenda debate for three fundamental reasons:

1. It will contribute to literature on the importance of the international private sector in achieving inclusive development and the role of supportive policies of the 'home' and 'host' country.
2. It will nuance the debate considering the importance of political economy and political settlement in the development processes. The moments when the settlements are negotiated are dynamic processes that involve selected group of strategic actors, including the state and MNCs. Because these processes happen behind closed doors in a rather 'occlusive' way, this study will refer to them as 'occlusive processes'.
3. It will confirm the importance of making a distinction between different dimensions of ID, as well as between inclusive and exclusive development outcomes and processes regarding the private sector development in Kenya, particularly when it involves foreign firms. It will do so by showing that at least in the case of some Dutch firms operating in the tea, flower and renewable energy sectors in Kenya, the private sector is capable of generating inclusive outcomes in economic, socio-cultural, spatial and ecologic dimensions; however, the (political) process that leads to such outcomes is often lengthy and exclusive (and sometimes 'occlusive') in nature.

### III. Research questions

The main research question guiding this dissertation is:

***What is the contribution of the Dutch private sector operating in the tea, flower and renewable energy sectors in Kenya to inclusive development in that country?***

The supporting questions are as follows:

- What were the key factors and processes supporting or constraining the analysed Dutch private sector in Kenya in achieving inclusive development outcomes?
  - o What were the key processes and outcomes in the development of the tea, flower and renewable energy sectors in Kenya?
  - o What is the nature of these processes and outcomes (are they inclusive or exclusive)?
  - o What was the role of the analysed Dutch private sector in these processes?
  - o What was the contribution of the analysed Dutch private sector to the achieved development outcomes, particularly through (productive) employment generation and provision of corporate social responsibility (CSR) programmes?
- What was the role of the Dutch government's private sector development policies in supporting the Dutch private sector in becoming more inclusive in their operations in developing countries (and particularly Kenya)?

### IV. Research location

Kenya was chosen as the focus country because it has been one of the largest recipients of Dutch aid and investments amongst Dutch partner countries in Africa (Kazimierczuk, Dietz, & Vink, 2016). Kenya is the dominant economic power in the East African region but it is known for its complicated political economy, which is characterized by inseparable links between political and economic interests demonstrated by the deep involvement of politicians in business affairs. Finally, Kenya is known to be one of the African countries that have adopted a rather open national strategic approach in its dealings with multinational companies. Hence, it was interesting to also investigate how such an approach influenced multinational business responses to the policy objective of promoting productive employment and inclusive development in the country (ASCL, UoN, & KAM, 2014).

The field research took place between October–November 2015, June–October 2016, August 2017 and in January–February 2019, in a number of locations within the country, including Nairobi, Limuru, Naivasha, Timau, Kericho and number of locations in the Laisamis constituency.

### V. Methodology

In order to understand desired context and mechanisms within each of the sectors, this study applied an exploratory research design with the overarching qualitative method of process tracing, in its both theory-building and theory-testing capacity. To achieve this, process-tracing was combined with case studies, within which 'mixed methods' were used. To assure that the inclusiveness potential of the selected sectors is adequately researched, the process-tracing within the case studies was guided by the approach presented by Dekker (2017), partly merged with the posited by Santpoort, Bosch, Betsema, & Zoomers (2017), and adjusted to the context of the private sector in Africa. Based on their suggestions, particular attention is paid to understanding the context (also historically) in which the private companies operate, acknowledge and describe their interaction with the political, social and economic environments, and how these interactions influence the nature of the outcomes of their operations. Furthermore, the mechanisms and processes that lead to potential inclusivity or exclusivity in each of the analysed sectors are considered. Finally, an attempt is also made to document where

and how the jobs are created, and how and why the benefits of the private sector operations are distributed in society. In doing so, this thesis takes the reader on a historical journey through the main stages of Kenyan economy in the 20th and 21st century intertwined with corresponding global development orders as seen through the lens of the three studied sectors: tea, flowers and renewable energy in their respective development processes.

## VI. Findings

- i. *About the contribution of the Dutch private sector operating in the tea, flower and renewable energy sectors in Kenya to the inclusive development in that country*

### General findings

By using the theory-building process tracing method in the examined case studies in the tea, flowers and renewable energy sectors, this thesis demonstrates that the Dutch MNCs in Kenya are able to contribute positively to economic, socio-cultural, spatial, ecological and even political dimensions of inclusive development. These findings confirm that the private sector has the capacity to play an important role in achieving inclusive development. The nature of the private sector makes it logical that the outcomes of its operations make the greatest contribution in the economic dimension. The shift towards more conscious and sustainable operations (globally but certainly in the Netherlands) has resulted in inclusive outcomes in socio-cultural and ecological dimensions. In some cases, an important event or process led simultaneously to both inclusive and exclusive outcomes.

However, it was observed that the positive outcomes did not happen automatically and did not reach their full inclusiveness potential. They were achieved in economically viable sectors and reached people capable of conducting work in these sectors, living in proximity to the companies or who were able to benefit from them as consumers. Such outcomes rarely accompanied the sectors' development phase (except from LTWP), revealing that time was needed (in all cases), as well as the personal motivation of Managing Directors (all cases) and dedicated internal policies (LTWP) in order to reach such groups. Supportive policies of the 'home' and 'host' country, as well as international pressure were equally important, especially in case of export-oriented firms. This shows the importance of the international private sector in achieving inclusive development, but also the role of supportive policies of the 'home' and 'host' country.

### Trade-offs in the political dimension

There were no major trade-offs detected between the outcomes in economic, socio-cultural, spatial and ecological dimensions. Moreover, the spatial inclusion of the neglected area in case of LTWP gave voices to local leaders and politicians leading to an inclusive outcome in the political dimension. Nevertheless, it is in the political dimension where the actual trade-offs were observed. Indeed, it was noted that in the African and Kenyan context, the presence and enforcement of a clear regulatory framework and incentives in the renewable energy sector are vital to attract new investors but not sufficient on their own. What also counts is the possibility to negotiate the terms directly with governments. This is not only symptomatic for the renewable energy sector, but appears to be relevant in other cases too.

### **‘Occlusive development’**

In all studied sectors, nearly all of the identified inclusive outcomes in economic, socio-cultural, spatial, ecological dimensions were preceded by lengthy and exclusive political processes with active engagement of the studied Dutch companies with the international, national and local governments. These processes were not only exclusive, but also ‘occlusive’ in nature – they happened behind closed doors among groups of carefully selected strategic actors. Hence, I have coined the term ‘occlusive development’. In the studied cases, ‘occlusive’ processes occurred during the initial stage of foreign private sector establishment in the studied developing country. They were exclusive in nature but they constituted an integral and (so far) inseparable part of the development process that led to inclusive outcomes. This relates to the role of personal networks and strategic actors operating in a specific context on an international, national and local level. This finding confirms the importance of making a distinction between different dimensions of ID, as well as inclusive, exclusive but also ‘occlusive’ development outcomes and processes regarding the private sector development in Kenya, particularly when it involves foreign firms.

### **The importance of political economy and political settlements analysis in a historical context**

To truly understand the political complexity and ‘occlusivity’, it was necessary to put the analysis of the studied companies in a historical context (Utting and Marques, 2010). Such economic history is clearly influenced by political economy and political settlements that determine whether the goal of inclusive development will be achieved or not. The governing coalition, whose primary objective is political survival (Whitfield & Buur, 2014), would be more likely to implement the necessary changes if faced with pressure from (potentially) powerful groups in society (Awortwi & Dietz, 2019; Bates & Bates, 2005; Berendsen, Dietz, Nordholt, & Van der Veen, 2013; Vlasblom, 2013). The private sector may act as such a powerful group, especially in a country where patronage networks are powerful and extensive, and state and business interests are closely interconnected (Akinyoade & Uche, 2018; Booth, Cooksey, Golooba-Mutebi, & Kanyinga, 2014; Booth & Therkildsen, 2012). Simultaneously, the private sector is subject to the will of this governing coalition. If the interests of these two groups converge, it may lead to important inclusive development outcomes. This demonstrates how important it is to consider political economy and political settlements analysis in a historical context when discussing the operations of the international private sector in developing countries in order to better understand how the effects of their operations can actually spill over to the local economy.

- ii. *About the role of the Dutch government’s private sector development policies in supporting the Dutch private sector in becoming more inclusive in their operations in developing countries (and particularly Kenya)*

Chapter 2 provides a review of Dutch development policies (since the 1949), with attention to the promotion of the private sector development (PSD). It shows continuity in the Dutch approach towards development policies as a way to promote Dutch businesses and export in developing countries. By using the theory-testing process tracing method in the context of the three selected case studies, this thesis further explores a possibility of verifying the main assumption behind the Dutch PSD policy in tea, flower and renewable energy sectors in Kenya. This theorised assumption introduced by the Dutch government in their development policies established a causal mechanism between increased economic collaboration stimulated by development policies and the creation of (productive) employment, thus contributing to inclusive development in developing countries. To confirm the validity of the tested policy assumption, one must identify a precise and direct causal mechanism between Dutch development policies and the contribution of the Dutch private sector to inclusive development in studied sectors in Kenya.

Unfortunately, the data collected does not make it possible to pinpoint a precise and direct causal mechanism between Dutch development policies and funding provided to Dutch firms in the studied sectors and, in turn, their contribution to inclusive development in Kenya. Consequently, it is not possible to confirm the validity of the tested policy assumption. This is a matter of great complexity that requires a more systematic approach that was not possible to adopt in this exploratory study. However, a specific link has been observed between the ‘home’ policies and the companies operating in the ‘host’ country: Dutch development policies, among other important factors, did encourage Dutch businesses to invest in developing countries, including Kenya.

The presence of Dutch companies in Kenya in three sectors of high national importance – floriculture, tea and renewable energy – has played a crucial role in the sectors’ establishment and development. Their presence directly and indirectly contributed to employment creation in the host country (although often not fully productive employment) and, through their CSR activities (although fragmented or not yet at full capacity), supported, to some extent, the local communities in which they operate. However, in the studied cases (Chapter 3-5), only a few companies benefited from direct financial support through Dutch PSD programmes and mostly in the maturity phase of the sector development. Only LTWP received such support in its development phase. Some of the initiatives funded by the Dutch government in the studied sectors had an important impact on the sector as a whole. For example:

- In the case of UTKL, the Sustainable Trade Initiative (IDH) co-funded the Farmers Field Schools (FFS), which worked towards knowledge transfer and greater inclusion of the smallholder tea farmers.
- In the flower industry, support to the Kenya Flower Council (KFC) to drive an update of the national horticulture standard for flowers and ornamentals (KS 1758 Part 1) was meant to assure a greater environmental inclusion by pushing for more appropriate environmental conditions and safer use of chemicals in the whole sector.
- In the case of LTWP, the direct contribution of the Dutch government to the road construction and upgrade, as well as in the project itself through the loan provided by the Netherlands Development Financing Company (FMO), was not only useful for the wind farm, but also opened up the long-neglected area. In this sense, it contributed to alleviating its territorial exclusion and to economic and political inclusion of some local groups.

It should be noted, however, that none of these initiatives came without a degree of controversy.

## VII. Conclusions

To conclude, this thesis broadly defines inclusive development as development that “aims to reduce poverty and inequality” (INCLUDE, 2019b: 5). In the context of three studied sectors (tea, flowers and renewable energy) in Kenya, it is confirmed that inclusive development prompted by the operations of the private sector can contribute to poverty and inequality reduction in its five dimensions (economic, socio-cultural, spatial, ecological and political) but not in its full inclusiveness potential. It is important to remember that private companies operate in a very specific environment and must also adapt to existing circumstances. These systems are not automatically inclusive. Without adequate oversight and assistance, the private sector may simply reinforce these non-inclusive systems. Therefore, full inclusion may not actually be possible in the context of private sector operations (and possibly more generally) as long as development remains market-driven and embedded in neo-liberal ideology.

International pressure, dedicated internal or national policies, as well as the individual motivation of the Managing Directors are crucial for encouraging inclusiveness. Primarily, inclusive outcomes can be achieved if the interests of the private sector and governing coalition converge. This requires lengthy



‘occlusive’ negotiations between groups of strategic actors, including the private sector. These exclusive and often ‘occlusive’ processes in the political dimension may ultimately lead to inclusive outcomes (as long as they provide a window of opportunity for the involved actors), but the settlements achieved rarely challenge existing power structures; rather, they reproduce them.

The Dutch PSD policies were important for encouraging Dutch entrepreneurs to invest abroad but its precise contribution to the inclusive development in Kenya was not possible to determine. The history of Dutch development policy provides a number of interesting solutions in terms of how to use a country’s knowledge and skills to work in favour of less developed regions in mutually beneficial arrangements to stimulate economic development. Economic diplomacy should thus focus on promoting policies that encourage inclusive development. Moreover, support given to the private sector in developing countries is important, but PSD policies need to be more realistic about what the private sector, in the specific context, can actually do to contribute to a specific dimension of inclusive development in a country. For this to happen, tapping into the actual knowledge of Dutch business(wo)men already experienced in doing business in the country is key, while PSD programmes should establish internal learning mechanisms for their private sector grantees to identify the challenges and on-going dynamics and swiftly adapt to the local context. Finally, such policies and programmes should not operate in a vacuum, but rather holistically support the ‘host’ country’s national government, sectoral organisations, trade unions, and civil society organisations to jointly create a conducive and inclusive business environment.

## VIII. Recommendations

Based on this research, the following recommendations are made to the Dutch Government for enhancing the contribution of the Dutch private sector to inclusive development in Kenya and other developing countries:

### Practical level:

- Acknowledge that the private sector has the capacity to play a key role in achieving inclusive development as long as the supportive policies of the ‘home’ and ‘host’ country are in place. Therefore, concentrate on promotion of policies encouraging inclusive development in ‘home’ and ‘host’ countries. The latter can be done through the economic diplomacy efforts of Dutch embassies.
- Provide adequate local support to new Dutch companies entering the Kenyan market from the Dutch embassy, as well as mentorship from other Dutch business(wo)men with experience of doing business in the country.
- Require Dutch MNCs to adjust their business models to account for greater inclusive development outcomes. Such outcomes should include productive employment creation and far more ambitious CSR plans that go beyond current models. The companies should also make internal efforts to deeply understand their local context and stakeholders.
- Recognise the importance of providing support to the private sector in developing countries in its development and maturation period. Support professionalisation and development of national standard compliance mechanisms. At the same time, holistically support Kenya sector’s associations, trade unions and forms of national public–private dialogues to strengthen the voice of the private sector and civil society in designing and developing national economic strategies for a more inclusive national system.
- Provide more support to local research and development, as well as public research to promote more inclusive knowledge transfer to challenge the existing power structure in the ‘host’ country and unlock the inclusivity potential of the sector

**Programming level:**

- Context and time matter! Historical, social and economic contexts, particularly underlying political economy and power relations, shaped patterns of inclusion and exclusion of the private sector in developing countries. Programmes supporting private sector development should be mindful of these dynamics (including 'occlusive' processes) and appropriately factor them into their planning and expected results. Support for more transparent (currently 'occlusive') process may be needed.
- Integrate appropriate learning mechanisms within PSD programmes, which would allow companies and funders to identify and adjust faster to the best context-specific approach in order to achieve common objectives.
- Enhance efforts to develop a holistic way of assessing the impact of the PSD instruments. Moreover, research analysing the regional concentration of Dutch businesses in developing countries should be conducted to better target under-served areas.
- Provide greater support and incentives for companies that invest in training and promote the development of their employees. Furthermore, provide support to companies that hire people with disabilities (also to increase job opportunities for this group).

**Policy level:**

- PSD policies and programmes must become more realistic about the role and limitations of the private sector in national development processes in 'host' countries. Acknowledge that the contribution of the private sector to inclusive development is most pronounced in the economic dimension and may not lead to full inclusion in all the dimensions under the current global economic system. Furthermore, recognise that time is needed to achieve inclusive outcomes.
- Promote and encourage policies enhancing balanced approaches between the government, private sector and civil society. The 'home' and 'host' governments should work towards creating conducive business environments with adequate oversight mechanisms.
- Avoid 'one-size-fits-all' policies. Different sectors face different challenges and actors involved are not a homogenous group. The needs of all actors should be taken seriously to assure full inclusion.
- Conduct more studies testing the underlying assumptions of the PSD policy using the process-tracing method. To cater for the challenges related to data access in the field, the companies that will be considered for such research should be willing to participate from the start. Private companies that benefited from the Dutch government funding should be particularly encouraged to participate in such research.
- Recognise and account for political economy and political settlements factors in Dutch PSD policies planning as well as in the assumptions behind their respective Theories of Change.