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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Chapter 4. Flower sector in Kenya[175]

4.1 Introduction

As stabilised African capitalist agricultural production linked to global value chains, Kenyan floriculture is in the position to generate quality jobs and create substantial spillover to the local economy, thus generating inclusive development outcomes. This chapter will broaden our understanding of the impact of the flower sector on inclusive development in Kenya. It will do so by examining the current state of the sector, as well as closely tracing the process behind the flower sector development, the role of foreign investors and capital (especially Dutch), as well as by analysing the complex mechanisms, power structures and political context underlying the sector's development. This case study shows that foreign investors and partners played a critical role in launching and expanding the floriculture industry in Kenya, while the progress towards more productive employment has taken more time. Yet, a greater inclusion of local farmers in all activities of the sector, as well as a substantial smallholder farmers engagement has not yet fully materialised. The lucrative breeding sub-sector appears most exclusive and influential, while a plethora of different certification schemes creates a barrier for smallholder farmers wanting to access international markets, thus hampering the flower sector's contribution to the inclusive development of Kenya.

4.2 Methodology

The Kenyan part of the floriculture value chain was investigated by using a mixed methods approach to field data collection, including a sector-wide standardised questionnaire and case studies of selected farms, as well as a number of key informant interviews with owners and managers of the companies in the value chain and other key stakeholders.

The survey looked at the impact of multinational companies in the floriculture sector on the promotion of productive employment and the challenges that the companies, particularly Dutch companies, currently face with respect to daily operations in Kenya. The data used in this chapter 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 standardised 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 and nearly 50 key informant interviews.

The survey consisted of five sections that address the following:

A. Information on the primary respondent
B. The entity in Kenya
C. Labour issues
D. The operating environment for business in Kenya
E. The parent company's entry into Kenya

The survey questionnaire was developed and piloted in October–November 2015 with nine companies. It was further adjusted and improved before the main data collection process in July–August 2016 and June–August 2017. The team consisted of eight junior researchers, supervised and coordinated by three senior researchers from the University of Nairobi (UoN) and the Kenya Association of

[175] This chapter is largely based on a published ASC Working Paper no 142/2018 (Kazimierczuk, Kamau, Kinuthia, & Mukoko, 2018).

Manufacturers (KAM). During this period, questionnaires were completed in the areas of Naivasha, Mount Kenya, Limuru and Nairobi. A total of 46 companies were surveyed.

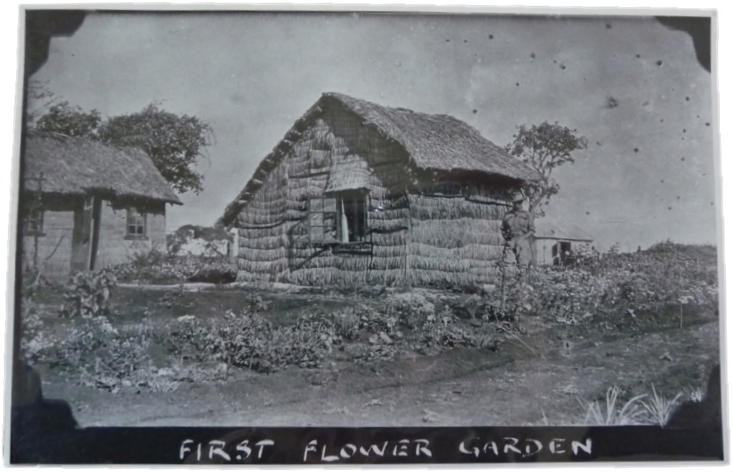
Due to the relatively small number of the companies in the sector (145), the initial ambition was to survey all of them. Due to declines, delays and postponements of the interviews, the team was able to reach 46 farms, which represented 32% of the flower-growing sector. Access is therefore an important limitation to this case study. The survey was followed up with three in-depth case studies of Dutch growers and one Kenyan smallholder collective, as well as interviews with six companies in the supply chain.

The data from the survey were coded in SPSS and Excel by research assistants at the University of Nairobi and analysed by the author of this thesis. This chapter is largely based on the outcomes of the qualitative and quantitative fieldwork, while the detailed results of the case studies can be found in Annex 6. These results were also published as an ASC Working Paper no 142/2018 by Kazimierczuk, Kamau, Kinuthia, & Mukoko (2018).

4.3 Flower sector development and the role of foreign investors

The sector origins can be traced back to the beginning of the 20th century (Figure 19), when a number of smallholder farmers started to grow cut flowers.[176] Kenya's first operations to grow commercial cut flowers for export started before 1950 and were undertaken by a few small nurseries run by European settlers (Steve Jaffee, 1992).

Figure 19. First flower garden in Ilula (Eldoret) Kenya, ±1914



Source: Kenya National Archives, 631.POT. 964647

The first large-scale flower farm was established by a Danish investor – Dansk Chrysanthemum Kultur (DCK) – in Eastern Kenya in 1969, as a result of high-profile connections that Jan Bonde Nielsen – the owner of DCK International – had with Bruce McKenzie, who was Jomo Kenyatta's Minister for Agriculture. Until 1969, based on the Foreign Investment Protection Act (FIPA) of 1964, as well as The Sessional Paper no. 10 of 1965, the Kenyan government (GoK) was generally supportive of the new

[176] The first type of cut flower cultivated in Kenya was pyrethrum. Pyrethrum is a flower and a cash crop grown for its natural pyrethrins, which are used in producing products for pest management on farms and as domestic insecticides (Highchem Agriculture, n.d.; Huggins, 2017).

international investment (Langdon, 1978; Leys, 1975). With regard to DCK, the Danish government provided a grant equal to one third of the total investment costs and GoK provided land (under a low-cost, long-term lease), exclusive growing and trading rights for eight years on several types of flowers, unlimited work permits for expatriate workers, and a 25-year guarantee not to change laws on foreign investor taxation and profit repatriation (Cleaver, 1993; Steve Jaffee, 1992; Whitaker & Kolavalli, 2006b). Later, McKenzie became a shareholder in DCK East Africa (J. Kamau, 2017). In the 1970s, DCK expanded its operations by acquiring two additional estates: a large-scale farm in Naivasha for producing carnations and a smaller one in Updown, near Nairobi, to be used as a nursery. The company rapidly provided large-scale employment opportunities. In 1971, the company signed an agreement with the trade union, the Kenya Plantation and Agricultural Workers Union (KPAWU) (Gemählich & Kuiper, 2017). The original estate did not work out though and in 1976, DCK farms were passed into Kenyan hands after the main Danish stakeholder suddenly pulled out.[177] Leading government officials became major shareholders in the Updown farm and decided to restructure the farm into a smallholder outgrower scheme in order to expand Kenyan participation in a rapidly growing industry controlled largely by European expatriates. Updown, however, collapsed in 1978, shortly after it had been taken over by the government-owned Agricultural Development Corporation,[178] which had dismissed all the expatriate personnel. Most of the farmers who had acquired floriculture skills in DCK continued growing flowers for commercial purposes, while many of the former DCK's expatriate employees set up their own small companies and provided flower marketing services (Steve Jaffee, 1992). British Brooke Bond (which ran many tea estates in Kenya at that time, see Chapter 3) took over the DCK farm in Naivasha. The company was renamed Sulmac and quickly became the largest producer of carnations in the world and the dominant cut flower exporter in Kenya. The farm further diversified its flower mix to include roses (English et al., 2006; Mitullah et al., 2017; Whitaker & Kolavalli, 2006b).

By the mid-1980s,[179] there were more than twelve flower producers/exporters, mostly tied to international companies, but also several African-owned farms (Cleaver, 1993; Steve Jaffee, 1992). Among the most substantial ventures was the Oserian Development Company, established in 1969 by a Dutch entrepreneur – Hans Zwager and his wife June. Located next to Sulmac in Naivasha, Oserian started as a large-scale vegetable grower but quickly diversified into cut flowers, using the existing irrigation, cold storage facilities and available former DCK employees (English et al., 2006; Zwager, 2005). The sector started to slowly develop. Managers and staff from Sulmac and Oserian, horticulture producers and exporters, as well as prominent Kenyan public officials were among those venturing into the new, large cut flower investments. The Kenyan involvement in the sector typically took the form of joint ventures with Dutch companies or the use of technical assistance from expatriate flower specialists from Israel and the Netherlands. Parallel to this, local smallholder farmers also (re-)started flower farms. These flowers were often sourced by larger farms and sold for export (English et al. 2006).

[177] It was later discovered that the company used its multinational structure to avoid paying taxes in Kenya. It was estimated that DCK East Africa, together with its associated companies Sulmac, Suswa Limited and Updown, cost Kenya more than Sh500 million in foreign exchange losses (J. Kamau, 2017).

[178] The government forced ADC to purchase an existing flower farm, ostensibly to encourage increased Kenyan involvement in the industry. Another relevant factor may have been that the prominent government officials who owned the farm were losing considerable sums of money (Steve Jaffee, 1992).

[179] In the mid-1980s, a new development model promoted by the International Monetary Fund (IMF) and the World Bank became part of the new global and Kenyan development agenda. Structural Adjustment Programmes (SAPs) promoted export diversification to generate foreign exchange (Hughes, 2001; Rono, 2002). As non-traditional goods and high-value commodities ready for exports, flowers fitted well in the new regime and this was promoted as export diversification in the 1990s (Hughes, 2001).

The sector rapidly expanded in the 1990s, as a result of progressing globalisation and reduced government intervention linked to the liberalisation of Kenya's foreign exchange control regime[180] and streamlining of importation procedures (equipment, planting material and other inputs). By the end of the 1990s, the global market was dominated by commission-based or auction transactions with Flora Holland[181] in the Netherlands becoming the major hub for flower trading in Europe and even worldwide. Consequently, the Dutch government decided to support the Kenyan floriculture sector and the Dutch companies operating in it. Among others, the Dutch Centre for the Promotion of Imports from developing countries (CBI) supported the Export Promotion Council (EPC) – the focal point for export development and promotion activities in the country (EPC Kenya, 2018), and funded a capacity building programme for the smallholders (Daily Nation, 2006; Rikken & Van der Hulst, 2012). Furthermore, since 2005, the Dutch government has injected more than five million euros for flower sector development in Kenya through its Private Sector Development instruments.[182] The support has predominantly gone to companies operating in the flower sector supply chain, rather than directly to the growers, but the Netherlands has also significantly contributed to capacity building within the sector through the KFC.

In the mid-1990s, the industry faced pressure from (international) non-governmental organisations to engage more in environmental preservation, particularly around Lake Naivasha, where the industry was blamed for a number of ecological problems.[183] In response to the criticism, the industry adopted a range of (expensive and heavily influenced by Western norms) private social and environmental standards and certifications. Such labels fulfil the requirements of overseas customers, but also give access to new markets and protect against allegations of exploitation of workers and the natural environment. Eventually, the sector became one of the most codified industries in the world (Dolan & Opondo, 2005; Lowthers, 2015; Riisgaard, 2007; Wijnands, 2005).

The many different standards and certifications led to overregulation of the sector. Consequently, further simplification and better coordination of the sector was necessary. In 2015, with the support of Dutch funding, the KFC pushed the Kenya Bureau of Standards to update the national horticulture standard for flowers and ornamentals (KS 1758 Part 1). This standard is supposed to harmonise the existing international codes on good agricultural practices and guidelines, as well as the laws of Kenya relevant to the entire sector.[184] Its sector-wide implementation has been delayed, but, in 2017, KFC together with the Fresh Produce Exporters Association of Kenya launched the Kenya Horticultural Council with the objective to support the industry with the implementation of KS 1758 part 1 (and part 2 related to fruits and vegetables).

4.3.1 Flower sector in Kenya today

The floriculture sector today is an example of an African stabilised capitalist agricultural production linked to global value chains (Whitfield, 2017). It is also seen as a potential 'industry without a smokestack' (Newfarmer et al., 2018). It involves a variety of local and international players in activities such as plant development and growing, providing necessary inputs, transport and handling. Within the

[180] Before liberalisation, import duties on many inputs, pre-shipment inspections and corruption raised the cost of doing business.

[181] Royal FloraHolland is a Dutch conglomerate of florists and the largest flower auction in the world today. The auction is the central marketing hub for flowers, involving wholesalers supply florists and other traditional retailers. It is a crucial step in the indirect floriculture value chain.

[182] Own calculations based on information provided by RVO and other available sources. See Annex 7 for the list of these projects.

[183] Some of the ecological issues were further dismissed as being caused by the local farmers and not by the flower industry (Everard & Harper, 2002; Mbaria, 2012; Mekonnen, Hoekstra, & Becht, 2012).

[184] KS 1758 requires growers, propagators, breeders, consolidators, shippers and cargo handlers to produce and market the flowers and ornamentals under appropriate environmental conditions and regarding the safe use of chemicals.

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. Although with limited participation, Kenya is the only country in the world that has smallholders growing cut flowers for export, which also creates a substantial inclusiveness opportunity on the national level (N. Mwangi, 2017).

The sector has developed a number of supportive institutions at local, national and international level. Among the key ones, locally, flower growers formed voluntary associations in the key growing regions to ensure that growers' interests are represented at the county level and its environs. Nationally, the sector is represented primarily by the KFC, a voluntary association of over a 100 independent cut flowers growers and exporters and additional affiliates. Globally, Union Fleurs in Brussels brings together international flower trade associations (like KFC) to represent the interests of the international floricultural trade; while the International Union for the Protection of New Varieties of Plants (UPOV) in Geneva is granting breeders of new plant varieties intellectual property rights.

In 2017, floriculture in Kenya earned KES 82.2 billion[185] (Andae, 2018; Kariuki, 2018). It is Kenya's fourth foreign exchange earner after remittances, tea and tourism (Mwaniki, 2017). Roses constitute 75% of the overall flower production, the rest is mostly summer flowers often grown by smallholder farmers. Essentially all cut flowers are grown for export. Only the stems that do not meet the international standards are sold on the local market. The domestic market remains, however, small (Wijnands, 2005). Kenya is the lead exporter of cut flowers to the European Union (EU) with a market share of 38% (KFC, 2017). Approximately 50% of exported flowers are sold through the Dutch Auctions, although direct sales[186] are also important and on the rise (Riisgaard, 2009a; Rikken & Van der Hulst, 2012).

In 2016, more than 3,000 hectares were under commercial floriculture divided into 190 flower farms owned by 145 medium enterprises and large multinational companies.[187] These farms range from three to 250 ha. There are also approximately 2,500-5,000 smallholder flower farmers (Mitullah et al., 2017; Riisgaard, 2009b). The composition of the Kenya's cut flower industry, as discussed, has changed considerably during the last 30 years. Contrary to popular belief, that mostly Dutch companies grow flowers in Kenya, only 19 out of 135 flower growers can be considered Dutch. Today, flower growing companies are mostly in the hands of Kenyan owners and managers (who often gained their experience working for Dutch flower companies) and prominent (and politically linked) Kenyan families.[188] Dutch companies, however, dominate the breeding and propagation sub-sector.

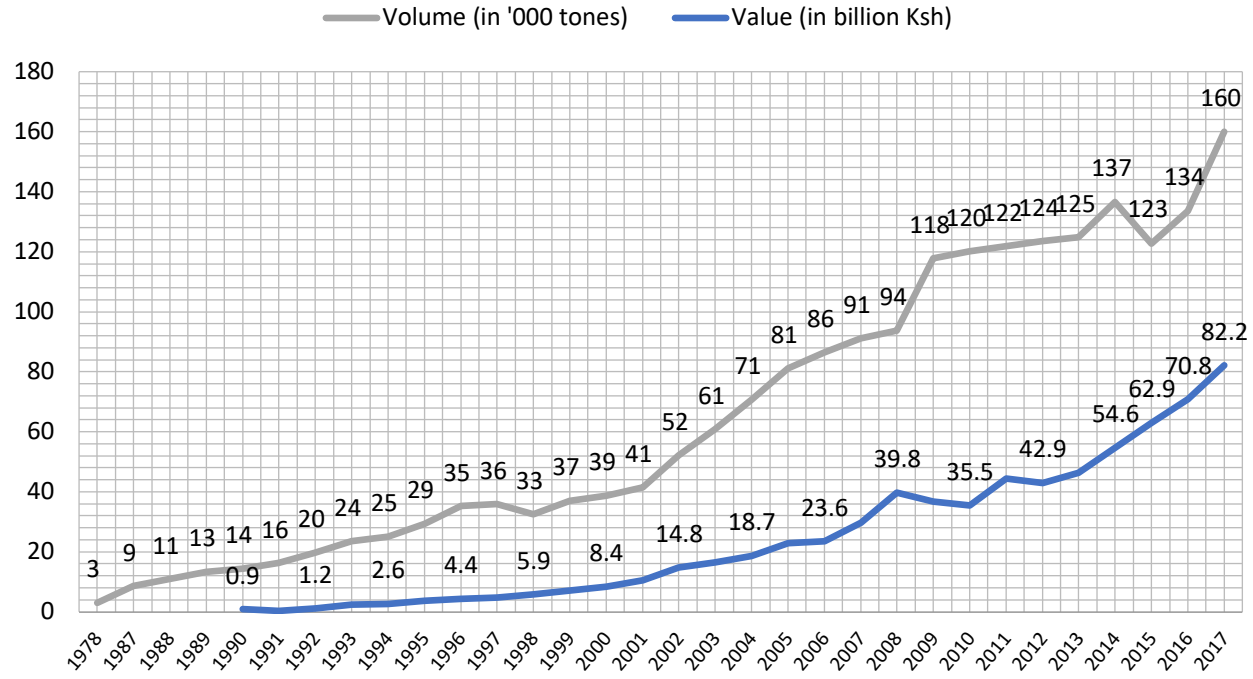
[185] KES 100 = ±US$ 1; KES 100 = ± € 0.80; provisional estimates.

[186] Mostly to the UK, but supermarkets in the Netherlands are becoming an increasingly important sales channel for flowers as well, with an increase in their market share from 18% to a 25% between 2010 and 2015 (Potjer et al., 2015).

[187] Own calculations based on desk research. As the sector is very dynamic, the companies' mergers and/or takeovers are quite frequent.

[188] Examples of flower farms owned by prominent politicians are: Karen Roses, Sian Roses, Enkasiti Flowers; Simbi Roses, Suera flower farm and Zena Roses Limited (Munene & Njeru, 2004; Njoroge & Wanjiru, 2017; Perlez, 1991, as well as the fieldwork data).

Figure 20. Growth of Kenyan cut flower exports



Source: Compiled and corrected for inconsistencies by the authors based on (AFFA, 2014; Bolo, 2006; Harris, 1992; HCDA, 2010, 2013; KFC, 2017; Mitullah et al., 2017; Schapiro & Wainaina, 1989; Tharau, 2003; The World Bank, 2009a; Westerman, Splinter, & Mukindia, 2005; Whitaker & Kolavalli, 2006a).

Kenya's cut flowers export recorded practically an undisrupted growth in volume and value since its inception (Figure 20). For instance, in 1978, the export volume was 3,000 tons, which grew by average 16% per year in terms of volume and 25% in terms of value of production (KFC, 2017). In 2017, Kenya exported 160,000 tons of flowers (Andae, 2018; Kariuki, 2018). Only twice, in 1998 and 2014, the production was lower than the production of the previous year. In 1997/1998, Kenya was seriously affected by the El Niño weather conditions. The broad agricultural sector recovered in the second half of 1998, but it was too late to offset the poor performance earlier that year (H. J. Brinkman & Gray, 1999). In 2014, agricultural producers have suffered losses due to currency fluctuations and the delays in the renewal of the European Partnership Agreement (EPA) – an important trade agreement between Kenya/East African Community and the EU.[189] Without EPA in place, Kenyan export to the EU was to be subjected to high tariffs. Kenyan flowers would consequently become less competitive in the already

[189] The EAC EPA provides for immediate duty-free quota-free access to the EU market for all EAC exports; partial and gradual opening of the EAC market to imports from the EU; safeguarding provisions allowing each side to reintroduce duties if imports from the other side threaten to disturb its economy. The EPA contains detailed provisions on sustainable agriculture and food security and on the sustainable use of resources in the area of fisheries. A chapter on economic and development cooperation is included. The parties are committed to concluding negotiations on environment and sustainable development, services, investment and private sector development within five years of the entry into force of the agreement. Several articles relate to the institutional set-up and the dispute settlement mechanism. The EPA falls under the umbrella of the Cotonou Agreement: a breach of one of its 'essential elements' involving human rights, democratic principles and the rule of law, could entail the suspension of the EPA trade preference for the country concerned (European Parliament, 2019).

saturated EU market. EPA was finally signed and ratified by Kenya in September 2016 (Pichon, 2018) as the only EAC country.[190]

The currency volatility was a challenge in 2016 as well. Additionally, the Kenyan shilling depreciated against the US dollar (Oxford Business Group, 2016). Another critical moment for the industry came in 2008, when the economic effects of the post-election violence that broke out in 2007, together with drought, negatively affected the flower production.[191] Being a global business, the sector was hit by the low prices, as a result of the global economic crisis of 2009. The weakening euro against the dollar affected the value of the overall production for the two consecutive years (2009 and 2010) (Oxford Business Group, 2016; Rikken, 2012). Despite these challenges, the performance of the floriculture sector has overall been strong throughout the years. The real boost to the sector was nevertheless given[192] when the GoK introduced regulations for the implementation of a Plant Variety Protection (PVP) scheme under UPOV 1978 Convention in 1999 and consequently encouraged foreign breeding companies to introduce their flower (and other horticultural) varieties into the country. I will return to this event in the later section of this chapter, just after presenting the results of the sector-wide survey and case studies.

4.4 Results from the surveys

4.4.1 General results

Out of the 46 surveyed companies, over half (61%) 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. Half of the Dutch companies are direct subsidiaries of their Dutch mother company, and only a quarter of them have a substantial Kenyan ownership. 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.

The majority (83%) of the responding companies are growers, while 13% 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 3).

[190] Rwanda has signed but not ratified, while other EAC members (Tanzania, Uganda and Burundi) failed to sign and ratify the agreement citing various country-specific concerns. The pact, however, requires all EAC countries to sign and ratify for it to take effect, therefore Kenya has been allowed temporary access to the European market under special arrangements. Ultimately, upon agreement of all EAC member states in late 2018, Kenya enforced its own bilateral trade agreement with the EU entitled "European Joint Cooperation Strategy with Kenya 2018-2022" (Anyanzwa, 2019; Business Daily, 2019; Delegation of the European Union to the Republic of Kenya, 2018).
[191] Naivasha was one of the affected areas with economic ethnic clashes between the Kikuyus and the Kalenjin.
[192] In the 1990s, without adequate protection for breeders, the industry stagnated, as no new varieties were introduced in the country. Only larger companies were able to secretly pay plant breeder royalties or introduce newer varieties from their own breeding schemes (English et al., 2006; Harris, 1992) but that was not the case for the smallholders.

Table 3. Survey respondents categorised by their primary activity

	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%
Grand Total	**28**	**9**	**7**	**1**	**1**	**46**	**100%**
	61%	**20%**	**15%**	**2%**	**2%**		

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

Source: own elaboration based on fieldwork data

Only one of the surveyed companies has been in operation in Kenya since 1969 and it is considered to be the pioneer in the sector. One more (Kenyan) grower started its operations in the late 1980s. The other respondents reflect well the constant growth of the sector that happened in the 1990s and 2000s: with 13 responding companies starting their operations in Kenya in the 1990s, 17 in the 2000s and 14 new companies entered the sector within the last decade. Among the breeding companies that were surveyed, 67% entered the country in the 2000s and only two have been in operation since the 1990s (both actually working in the propagation sub-sector). Some of the respondents are daughters to global floriculture veterans: two of the 'mother companies' have been operating for over a hundred years, while four were established in their country of origin already in the 1940s and 1960s (Table 4). The majority of the respondents are located in the Naivasha and Mount Kenya area. Most of the surveys were filled in by a (Managing) Director. Half of the respondents are expats; with almost half of them (48%) coming from the Netherlands. Among the Kenyan companies with Kenyan managers (respondents), almost a third (29%) used to work for a Dutch company before, including the manager of the small-scale grower scheme and the director of the growing and sourcing company. Interestingly, both of them used to work in the Dutch companies that are involved in smallholder flower sourcing and sourcing,[193] respectively. The respondents had a very clear understanding of floricultural production and the sector's day-to-day challenges.

Table 4. Survey respondents categorised by their starting year of operations in Kenya

	1960s	1980s	1990s	2000s	2010s	Total
Breeders and propagators			2	4		6
Growers	1	1	11	12	13	38
Flower broker					1	1
Small-scale grower				1		1
Total	**1**	**1**	**13**	**17**	**14**	**46**

Source: own elaboration based on fieldwork data

The majority of the companies are operating on less than 100 ha (Table 5), including some of the breeders and propagators that do not need a large plot as they use the land only to showcase their flower breeds. The majority of the product is exported, with only breeders and propagators selling over 95% of their products in Kenya. Merely a fraction of the flower production (by the growers) targets the local market.

[193] Sourcing in general, meaning that they don't limit themselves to flower sourcing from smallholders.

Table 5. Summarised (average) size of the survey respondents' farms categorised by type of operations

	Ha	No of companies	Average Ha
Breeder, propagator	29	6	5
Flower broker	10	1	10
Grower, propagator, sourcing*	1,132.5	36	31
Two largest growers	390	2	195
Small-scale grower	20	1	20**
Total respondents	**1,581.5**	**46**	

*Excluding two largest growers among the respondents

** Total joint area under flower cultivation of the member smallholder farmers

Source: own elaboration based on fieldwork data

The majority (78%) of all surveyed companies, out of which 77% non-Dutch and 81% Dutch flower companies, are members of the Kenya Flower Council (KFC). Non-Dutch companies (that are predominantly Kenyan) are more frequently members of other national advocacy networks, such as the Kenya Association of Manufacturers (KAM), Fresh Produce Exporters Association of Kenya (FPEAK), Horticultural Association of Kenya (HAK) or Kenya Private Sector Alliance (KEPSA) than the Dutch companies. All of the companies decided to invest in floriculture in Kenya predominantly due to its favourable climate conditions and access to skilled and cheap labour costs. Some companies also take advantage of regional or international trade agreements, as well as from geographical diversification of activities.

The sector is highly regulated as a result of its criticism that peaked in the 1990s that led to the development of international and national standards and certifications schemes. Such schemes impose a number of internal requirements, including availability of numerous internal policies. Surprisingly, even companies without certifications do have (some of) such documents available, which can be considered a positive spill over. Consequently, over 90% of all the companies have drafted an internal Policy on the use of agrochemicals, a Code of Conduct and they prepare Annual Reports and Statements of Accounts. Furthermore, 94% of Dutch and 87% of non-Dutch companies are guided by their internal Employment Regulations, Labour Standards and Policy on Sexual Harassment. All but one Dutch company as well as three quarters of the non-Dutch companies have their own CSR policy. However, only 50% of the Dutch firms and 57% of the non-Dutch firms have officially regulated issues of Staff Development. Compared to their non-Dutch counterparts, Dutch companies are less likely to regulate trade union and conflict of interest issues through official documentation. The former is particularly surprising, as 70% of Dutch companies have (some) workers belonging to a trade union, compared to only 43% of non-Dutch companies. Furthermore, it appears that companies that have trade union members are also more likely to have employees organised in internal workers' committees. Welfare, gender and health & safety are the most frequently established groups.

GlobalGap is the leading international standard in the sector. As much as 47% of non-Dutch and 56% of Dutch companies adhere to it. The Ethical Trade Initiative is the second most adopted standard, with 13% of both Dutch and non-Dutch farms following these guidelines. More non-Dutch companies gained ISO 14001 for the environmental management system, although the proportion of firms who have it remains at the lower end with 13% of non-Dutch and only 6% of Dutch companies that officially reach the criteria. Nationally, the Kenya Bureau of Standards (KBS) updated the KS 1758 part 1 – national standard for Flowers and Ornamentals in 2015. KS 1758, requires growers, propagators, breeders, consolidators, shippers and cargo handlers to produce and market the flowers and ornamentals under appropriate environmental conditions. The process of updating the standard was initiated by the Kenya Flower Council with funding support from the Dutch government. This standard supposed to be harmonised with existing international codes on good agricultural practices and guidelines, as well as

with the relevant laws of Kenya, especially regarding the safe use of chemicals. Its sector-wide implementation has been delayed, but, in 2017, KFC together with FPEAK launched the Kenya Horticultural Council (KHC) with an objective to support the industry with the implementation of KS 1758 part 1 (and part 2 related to fruits and vegetables). A number of respondents were aware of the standard.

The Kenya Flower Council certificate remains the most popular certificate among the respondents and it is obtained by 67% of non-Dutch and 56% of Dutch companies. KFC Silver and Gold standards are considered the most rigid and demanding certification available to date;[194] however, the label as such is not well recognised internationally. That is why almost 40% of all companies are also MPS-A certified and over 20% are Fair Trade certified. Both labels are internationally recognised but did not originate in Africa. Proportionally, more Dutch companies are MPS SQ certified, although it is only a quarter of all of the Dutch respondents. MPS SQ is a certificate that focuses predominantly on the social aspects of the operations. Non-Dutch companies are also more often certified by Fair Flowers Fair Plants compared to their Dutch counterparts.

Despite many advantages of the various types of certification, obtaining a certificate is a costly process, thus beyond reach of most small companies, newcomers and smallholder farmers who wish to access international markets. Except for the KFC certificate and KS 1785, all other standards are developed outside Africa, therefore all the income generated by the certification process in Africa effectively leaves the continent. Furthermore, the requirements are often designed and apply to large-scale productions, which means that they cannot be implemented by smallholder producers. They do not apply to the breeders or propagators either. The many different sector standards and certification, and lack of clear and often contradictory regulations at a national and county level create a fertile ground for corruption on many levels. Therefore, there is a need for further simplification and better coordination of the sector.

4.4.2 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 (Table 6 and Table 8). Regarding the flower production, Dutch companies are responsible for 33% of the total figure. Growers and propagators are responsible for the majority (98%) of the employment created by the respondents, while breeding companies for least of it (0.03%) (Table 7).

Table 6. Employment created by the survey respondents in the flower production per country of origin

	Sum of Count	Sum of employees	%
Kenya	28	13,516	57%
Kenya w/Dutch connection	9	6,562	28%
Netherlands	7	1,187	5%
Germany	1	1,370	6%
Israel	1	1,214	5%
Grand Total	**46**	**23,849**	**100%**

Source: own elaboration based on fieldwork data

[194] For more details about the certifications standards in the sector see Annex 8. To read more about the standards and certifications and their comparison see e.g. Barrientos et al. (2001); Nelson et al. (2007); Potjer et al. (2015); Riisgaard (2007); Rikken (2011); Wilshaw et al. (2013).

Table 7. Employment created by the survey respondents in the flower production per type of operations

	Sum of Count	Sum of employees	%
Grower	32	16,656	69.8%
Grower, propagator	4	5,910	24.8%
Propagator	1	855	3.6%
Breeder, propagator	3	287	1.2%
Small-scale grower	1	108	0.45%
Flower broker	1	14	0.06%
Grower, sourcing	2	12	0.05%
Breeder	2	7	0.03%
Grand Total	**46**	**23,849**	**100%**

Source: own elaboration based on fieldwork data

Table 8. Employment created by the survey respondents in the other parts of the value chain per country of origin

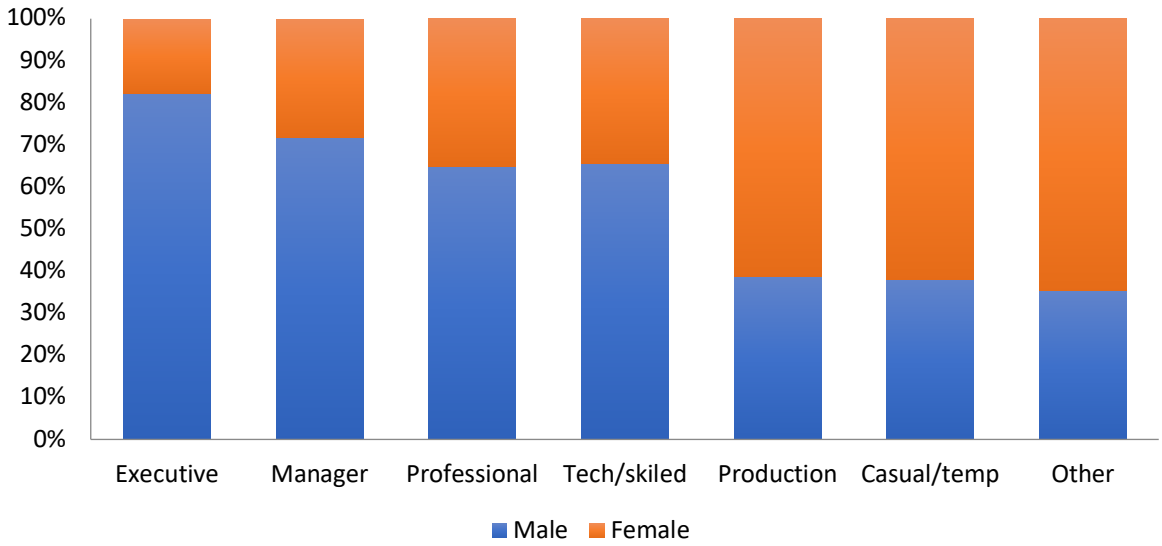
No of employees	Cargo	Chemicals	Handling	Packaging	Total	%
Kenya		700	157		857	70%
Netherlands	18	25	52	135	230	19%
Switzerland			140		140	11%
Total	**18**	**725**	**349**	**135**	**1,227**	**100%**

Source: own elaboration based on fieldwork data

The majority of the farm jobs are available for low-skilled workers. The findings suggest that over 80% of the employees are hired on permanent contracts, while the remaining 20% can be classified as temporary or casual labour. The ratio of casual labour is much higher compared to the estimates by Mitullah et al. (2017) (which found less than 2% casual labourers in the flower sector). This is because this thesis, contrary to Mitullah et al. (2017), does not assume that a casual worker is an employee without a contract. All the visited farms highlighted their commitment to HR procedures, meaning that even the casual or temporary employees had adequate working contracts drafted and in place, hence the discrepancy.

With regard to the gender division among the employees, it is well known that the sector attracts many female workers. In our sample, women constituted 59% of the total workforce. The tasks within the sector, especially within the growing and production, are often distributed according to gender. Figure 21 below indicates that the majority of low-skilled jobs are given to female workers, while more technical and administrative tasks are handled by male employees. Furthermore, our data shows that men perform most of the executive tasks.

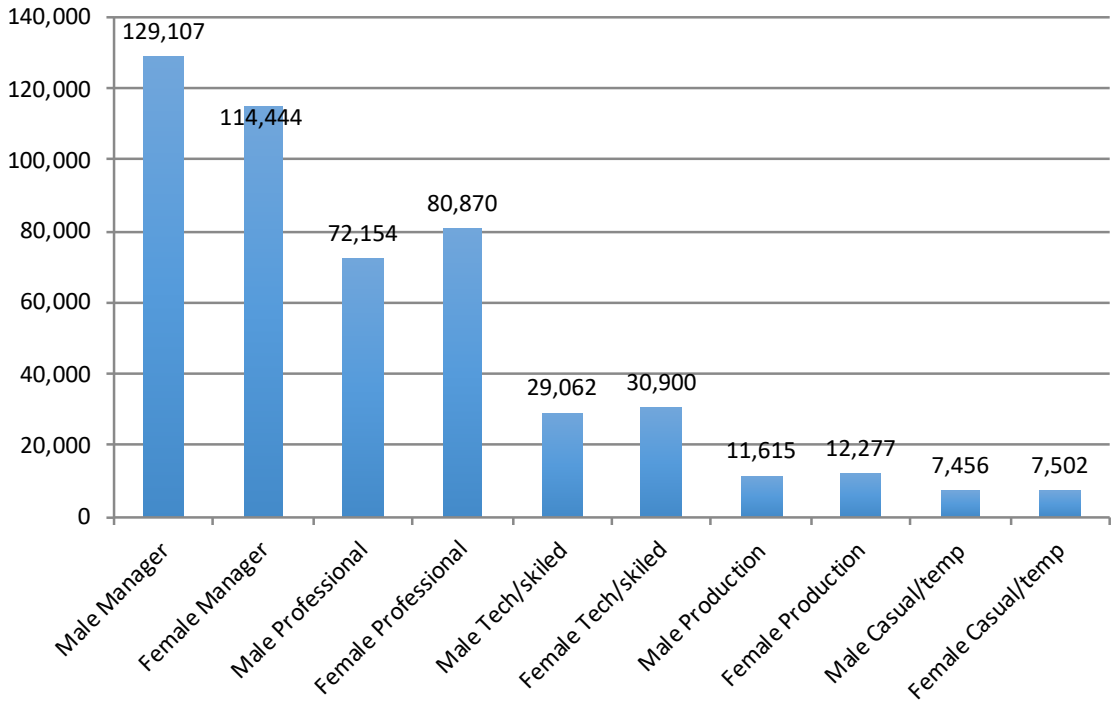
Figure 21. Gender division among the employees classified based on type of job



Source: own elaboration based on fieldwork data

With regard to the salary, the survey findings mirror the outcome of Mitullah et al. (2017). On average, the surveyed flower producing companies provide higher than minimum wages in the agricultural industry (2016: 6,780 Ksh on average and 5,436 Ksh for unskilled labourers) but not yet an equivalent of the living wage of approximately 14,000 Ksh (RVO, 2016). That also depends on the region, as Anker and Anker (2014, 2017) estimated. The average salary for the unskilled labour among our respondents is between 11,615–12,277 Ksh, including housing or housing allowance (that according to Kenyan Law an employer is required to include for their contracted staff) (Dolan & Opondo, 2005; Dolan & Sorby, 2003). The companies are committed to equal pay, yet some visible differences between the salaries offered to female and male workers can be found. Gender does not appear to be a discriminatory factor with regard to salary provided for general workers. On the contrary, female workers are paid better than their male counterpart. The discrepancy in most cases can be explained by a duration and stage of work within the company rather than dictated by gender. A similar observation is made for more skilled personnel where female technical and administrative professional appear to be paid more than their male counterpart. Male managers and executives, however, are enjoying a higher salary in comparison to their female counterpart, yet it should be stated that the average wage for the executives should be considered indicative but not representative, as only a few companies agreed to disclose the salary of their executives.

Figure 22. Average salary in Ksh in the floriculture sector (2016)

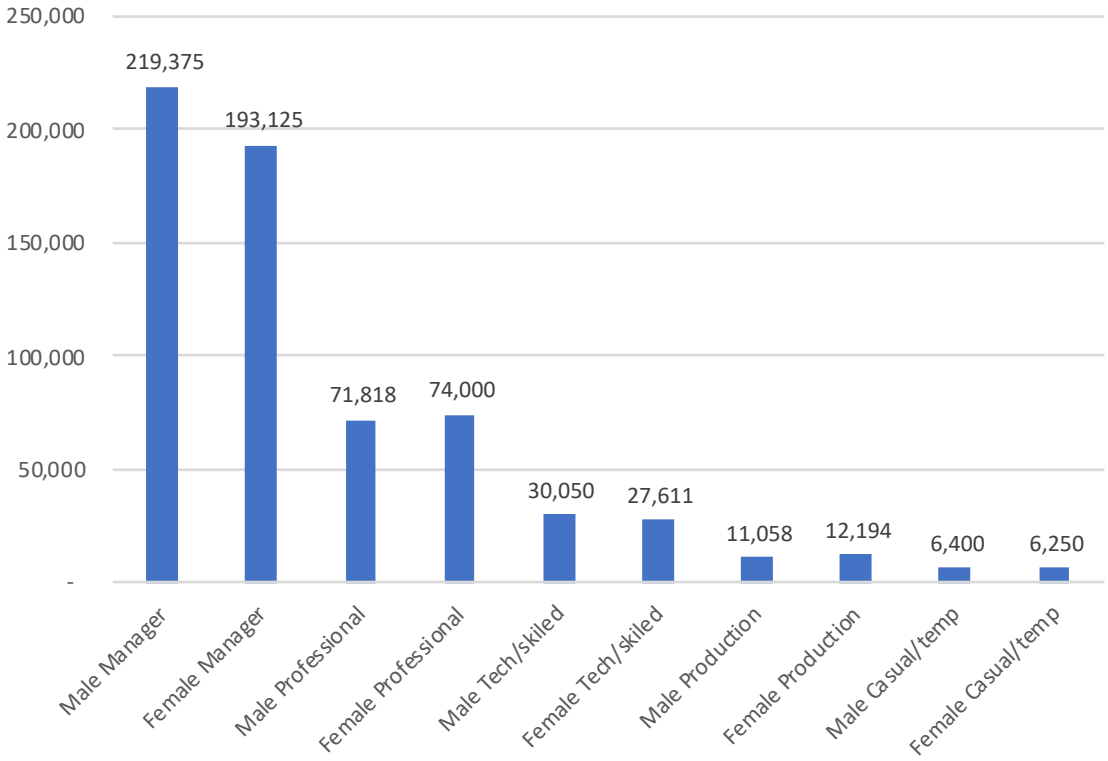


Source: Own calculations based on fieldwork data (information for June 2016).

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.

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. Executives and management benefit from most of the additional benefits, as does the permanent staff, although to a slightly lesser extent. Casual and temporary labour is in the least privileged position with regard to additional benefits, especially related to healthcare and transport. Only a fifth of the surveyed companies provide childcare facilities and half are providing breastfeeding facilities for their female workers; half and a third of them respectively are Dutch. Dutch companies also 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. I hypothesise that this explains the general feeling among the local employees and residents around the farms that it is "better to work for a *Mzungu* [a white man] […], as they pay better, treat you better and [some] have a football team" (Own interviews, 2016).

Figure 23. Average salary in Ksh provided by the Dutch companies in the floriculture sector (2016)



Source: Own calculations based on fieldwork data (information for June 2016).

Managers are generally satisfied with the performance of their employees. They consider Kenyans as hard working and dedicated employees. To date, it appears that the current employees are rather satisfied with their jobs, as the flower farms under review experience very little turnover of their staff (the highest being for the low-skilled, yet even there it remains at the low end).[195] Among points for improvements, effective communication between the top management and production workers is still considered a challenge. Managers often communicate the executive decisions via printouts on notice boards instead of general meetings. It is also felt that many decisions considering production workers are taken without adequate consultations with the directly affected. Similar complaints were presented regarding wage discussions led by the trade unions. The trade union's negotiations of the Collective Bargain Agreement (CBA) remain a largely top down process that does not involve much participation from those workers directly affected. Despite some improvements in recent years, the trade union is still considered inefficient and unprofessional, with cases of nepotism and patronage being mentioned on a number of occasions. It is not surprising, therefore, that the majority of the employees of the surveyed farms, although allowed, are not members of the trade union.[196] In case of any issues, they prefer to discuss it directly with the management or via internal employment committees.

The sector is expected to grow; therefore, a number of incentives would be desirable from the companies' perspective if the government wishes the sector to generate more employment. In recent years, the trade has been facilitated through the provision of incentives in the form of zero or reduced duties and other taxes on imported inputs, such as greenhouses, greenhouse covers, refrigeration equipment, dam construction lining and shade netting, among others (Kariuki, 2018). The companies, however, would prefer less regulation by the state and introduction of low- or free-interest loans.

[195] It can also be an effect of lack of many employment alternatives.
[196] In a number of responding companies, there are employees that belong to the union. However, often it is only a fraction of the total number of workers.

International trade agreements and in particular being a signatory to the European Partnership Agreement (EPA). Furthermore, the state should provide better training institutes.

A number of the respondents pointed out that the government remains very passive and does not adequately support sector development, thus also does not encourage further employment generation. An example of Ethiopia was given, where the government has been much more active and welcoming to foreign investors. It provides land, initial infrastructure, tax incentives and freight subsidy to support the local floriculture sector development. Such incentives are absent in Kenya, or even on the contrary, more regulations and taxes are imposed on the companies in the sector instead. Issues of exchange rate volatility and double taxation on the national and county level have also negatively affected the operations. Widespread corruption is considered a high, albeit manageable threat to the business. More problematic are high and increasing costs of living, energy and production, which require yearly salary adjustments. That leads to high labour costs. Finally, excessive bureaucracy and delays with VAT returns pose serious threat to business.

Consequently, the respondents suggested to reduce employment costs, provide a better training to the trade unions, as well as advice the government to reduce red tape, taxation and provide subsidies on freight and horticultural inputs.

4.4.3 Skills development

As the sector is already mature, it is possible to find necessary skills nationally. Yet, if the sector wishes to advance and develop further towards more value-added activities, more technical knowledge should be added to the pool of labour, hence the need for better and more specialised training.

Most companies provide on-the-job, in-house training for their employees, but they do not provide training to other national companies. This is partly a result of lack of clear internal Staff Development Regulations, as noted earlier. It is particularly problematic in the case of knowledge and skill development for propagation and breeding. Breeding technology remains highly protected by international companies, with very little knowledge being transferred nationally. Furthermore, this branch of the floriculture sector requires high investments in R&D and specialised technical knowledge. That is not to say that the existing breeding companies should give up their patents, but there is clearly a need to provide finance and support to local R&D and public research in this domain. It will allow national companies to enter this part of the sector. Yet, public support alone is insufficient. If the sector is to develop further, the following skills are in high demand:

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

All the responding companies would be willing to invest more in training if there are policies in place that provide more tax breaks and greater incentives for hiring. Rebates or subsidies with respect to freight are also welcomed. The respondents also suggested enhancing training provided by the National Industrial Training Authority (NITA). Furthermore, expatriate staff should be urged to train their local counterparts in both management and technical skills.

4.4.4 Supply chain and imported products

The majority of the companies in the supply chain are local suppliers providing agro chemicals and fertilisers, but these companies are distributors of imported products. The local suppliers are valued positively, particularly for their efficiency and timely deliveries, although the cost of products is considered to be at the high end. Among the most frequently imported products, the following can be distinguished:

- Greenhouse and irrigation materials
- Organic inputs (peat, seeds and planting materials)
- Fertilisers / 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

4.4.5 Bottlenecks linked to the supply chain

The floriculture chain provides an opportunity for the inclusion of a number of actors, including local actors. Nevertheless, the sector faces a number of challenges that affect both the forward- as well as backwards linkages, including challenges linked to the local content and local production. Among the main issues, the following can be distinguished:

- Bureaucracy
    - Delays with VAT refunds
    - Too much paperwork and delays in getting documents for import
    - Unreasonably high import duties
    - Long clearance time in Mombasa
- Transport
    - High freight charges
    - Bad roads
    - Harassment of transport by police
- 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 blocks flower smallholders)
- Quality and price of packing materials

4.4.6 Corporate Social Responsibility

The majority of the flower companies see Corporate Social Responsibility (CSR) as an integral part of their operations in Kenya. They feel the need or a pressure to support the local communities where they operate. All but one Dutch company and 77% of non-Dutch companies have an internal policy regulating their CSR engagement. Their activities in this field can be broadly divided into five categories: education, health, infrastructure, social and environment. The most prevalent programmes are summarised below. Among the most common is educational support for employees' children and to increase their chances of reaching higher education by providing bursaries and scholarships. Furthermore, a number of farms have their own clinic and support local communities with clean drinking water. Farms are also involved in the local community by supporting local orphanages, local

football clubs, libraries or police stations. They contribute to improved environment and infrastructure by planting trees, engaging in conservation, building roads or providing street lighting. Only a few companies see the employment (and on-the-job training) they provide as part of their CSR. Finally, a number of companies have started to implement more environmentally friendly behaviours in their daily operations, such as installing solar systems, composting of organic waste or using LED lighting in the greenhouse. The majority of the farms have rainwater-collecting systems, but none of them mentioned this solution as part of their CSR or as part of an official sustainability policy.

Education:

- Supporting building and supplying local schools
- Provide bursaries for primary school children
- Provide scholarships for children of workers to pursue university degree
- Provide computer training (for employees, their children and others)
- Supporting workers who want to continue education

Health:

- Clinical facilities and nurses on the farm
- Supplying drinking water to the surrounding area
- Supporting local hospital
- Collaborate with NGOs to provide retroviral medications for employees who need them

Infrastructure:

- Building roads
- Water project
- Sponsor streetlight

Social:

- Provide employment
- Support local orphanages
- Support local football club
- Provide clothes for local kids and families
- Support Naivasha Children Rescue Centre
- Support the local police station
- Support local library
- Provide bicycles for employees
- Provide fish for the employees from the farm's fish pond

Environment:

- Planting trees
- Digging borehole
- Conservation of the (Naivasha) lake
- Composting organic waste
- Engage in wildlife conservation
- Use of solar system
- Use of LED lighting in the greenhouses

Looking at the activities in the field of CSR, it can be observed that companies are partly engaging in the social activities to improve their image and position in the local community by providing basic services that are not adequately delivered by the government. Some other activities remain ad hoc and are in response to requests from the local government or other authorities. There is a general feeling that the companies see CSR more in terms of corporate philanthropy or internal (or external) pressure to provide basic services to the local communities rather than having a long-term vision that focuses on integrating responsible and sustainable behaviour into core operations on the farms.

4.4.7 Government support

The respondents highlighted on a number of occasions that the sector has developed independently from the state and did not benefit from any substantial support. Only a handful of surveyed companies indicated that they were the recipient of governmental funding or received any incentives that would be helpful for the business development at any stage. The only governmental funding provided to the respondents came from the Dutch government to four Dutch companies: two received support through the Green Farming initiative,[197] one was a recipient of Emerging Markets Cooperation Programme (hereafter, PSOM)[198] and one of Private Sector Investment programme (hereafter, PSI)[199] (although the grant was not related to floriculture, but to the company's diversification into horticulture). All the external support was considered helpful, but additional sources were needed to further develop and operate.

Since 2005, the Dutch government has supported the floriculture sector with more than five million euros, channelled through 17 PSOM, PSI or PSD Apps[200] projects (see Annex 7). Half of the money went to linking Kenyan flower growers to new marketing opportunities, local bulb production, production and marketing of flower care products, introducing seed-based propagation; and local assembling and distribution of high-end irrigation dosing units (Netherlands Enterprise Agency, 2019; NL EVD International, 2005-2008; PSI, 2009-2012; Van Haren, Berends, Wiertsema, Van Der Gaag, & Verwer, 2007). That also shows that the support went predominantly to the companies operating in the flower sector supply chain, rather than to the direct growers (Belt & Spierenburg, 2013). It doesn't surprise, as majority of these funding was available for innovative projects, whereby by 2005, the growing sub-sector has already reached the maturity. An important support to capacity building within the sector was offered to update the national mechanism for industry-wide compliance that led to redesigning of the Kenyan national horticulture standards for flowers and ornamentals (KS 1758 Part 1) and fruits and vegetables (KS 1758 Part 2).

The Kenyan government did not offer any subsidies to the respondents, or a reduction on land or utility charges. Only one growing Kenyan company benefited from the tax breaks offered by the Kenyan government, and one Dutch breeder and one Kenyan grower received governmental guarantees on profit and capital repatriation. These incentives were critical for these companies to invest in the sector.

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[197] The Green Farming consortium consists of over 25 leading Dutch companies in horticulture technology. It unites horticultural networks in the Netherlands, Kenya and Ethiopia. Wageningen University and Research Centre supports the programme and is actively involved at the level of research and knowledge exchange. Green Farming activities related to water management, crop management, climate and energy, post-harvest and logistics; and research and knowledge exchange (Green Farming, 2013).

[198] Emerging Markets Cooperation Programme (PSOM) was an instrument of the Dutch government to support private sector development, initially introduced in 1990. It aimed at cooperation with emerging markets. It included balance-of-payment support, sectoral budget support, debt relief, and programmes to reinforce the institutional capacity of the recipient countries. Kenya became eligible for PSOM in 2004 (Van Haren et al., 2007). See also Chapter 2.

[199] Private Sector Investment programme (PSI), introduced in 2008, replaced PSOM. PSI was a subsidy programme to promote sustainable economic development by boosting investment in significantly innovative projects in the private sector in developing countries. The programme ran until 2013 when it was replaced by the Dutch Good Growth Fund instrument. See also Chapter 2.

[200] Private Sector Development (PSD) Apps is a toolbox that can assist Dutch embassies in their efforts to create a business-enabling environment, remove trade barriers and in matching local and Dutch business partners, in order to shape the local implementation of the Dutch agenda for Aid, Trade and Investment (Netherlands Enterprise Agency, 2018).

4.4.8 Conclusions from the surveys

The purpose of the survey and case studies[201] was to assess the extent to which the flower sector in Kenya has generated jobs that are sustainable, inclusive and productive; and to investigate whether there are any differences between practices and quality of employment created by the international players, particularly Dutch companies compared to the non-Dutch counterparts. In addition, it aimed at understanding and revealing the main challenges the companies in the flower sector experience in their day-to-day operations. The results described above (including case studies), together with the data collected through key informant interviews and literature review feed into the broader discussion about the main contributing and constraining factors of the sector's inclusive development potential. These are described in the next section.

4.5 Discussion about the contribution of the flower sector to inclusive development in Kenya

4.5.1 Exclusive international mechanism: Plant Variety Protection (PVP) scheme

Through the years, (then) the largely 'foreign'-owned floriculture and horticulture sectors have consistently lobbied for implementation and exacerbation of plant breeders' rights in Kenya (Louwaars et al., 2005; Rangnekar, 2014), because having a legal environment that grants intellectual property rights over the plant materials is vital to encouraging private sector investments in this domain (The World Bank, 2017a). The Seeds and Plant Varieties Act of 1972 first introduced provisions for the protection of plant varieties, providing proprietary rights to persons having bred or discovered new varieties of plants. The Act was revised in 1991, which led to the introduction of a PVP scheme in 1994 that ultimately became operational in 1997 (UPOV, 2005). Responsibility for PVP was taken on by the Kenya Plant Health Inspectorate Service (KEPHIS)[202] in 1998. Kenya officially acceded to the UPOV under the 1978 Convention in May 1999 and under the 1991 Convention in May 2016 (Munyi, 2015; UPOV, 2005). Since the first accession, several breeding companies have successfully entered the Kenyan market.

The most significant difference between the two UPOV Conventions is that its 1991 version grants considerably greater rights to plant breeders. While the 1978 UPOV does not extend breeders' exclusive rights to materials harvested from the plant variety, the 1991 UPOV gives breeders some control over the harvests of protected plants. Consequently, the 1991 UPOV, unlike the 1978 UPOV, substantially limits farmers from selling or exchanging seeds with other farmers for propagation and any other commercial purposes, ultimately safeguarding the interests of the breeder. The 1991 Convention has also included more extended protection to ornamental plants and cut flowers[203] (Munyi, 2015; Rangnekar, 2014; UPOV, 1961).

Historically embedded in global supply routes for fresh fruits and vegetables (and later, floriculture), a powerful global constituency with interest in UPOV-style plant breeders' rights exists in Kenya

[201] See Annex 6 for the detailed description of the case studies.

[202] The Kenya Plant Health Inspectorate Service (KEPHIS) was established in 1996 as the national regulatory agency responsible for variety evaluation, release, and registration; PVP; seed certification; plant protection; and development and implementation of seed standards (Munyi, 2015; UPOV, 2005).

[203] Other variations between the 1978 and 1991 UPOV systems include longer term of protection granted for new varieties (15 vs. 20 years [with some exceptions]). Furthermore, both UPOV systems provide for a breeders' exemption and a farmers' privilege. However, the scope of these exceptions and limitations is much greater in the 1978 UPOV. The breeders' exemption allows breeders not to wield their rights to prevent other breeders from creating new varieties or marketing those new varieties. The farmers' privilege enables farmers to use the seeds (and other propagating materials) of protected plant varieties for non-commercial purposes without the breeders' prior authorisation (Munyi, 2015; Rangnekar, 2014; UPOV, 1961).

(Rangnekar, 2014). The UPOV guidelines regulate how the breeders are compensated for their investments through a system of royalties and licences (Wijnands, 2005). Royalties paid to breeders for the rights to their plant materials are important costs for the companies. Depending on the scale of production,[204] they can constitute between 1.2% and even up to 40% of the total production costs Fieldwork, 2016; Thoen et al., 1999 cited in Wijnands, 2005). Most growers source from multiple breeders (Perry, 2012). Picking the right variety is a critical element of the grower's operations, as the type and quality of the planting material will determine the future sales and revenues. Such structure results in a situation where a handful of breeding companies are in the position to dictate the prices and quantities of flowers sold each season.

Globally, there are 20 major rose breeding companies, practically all located in Europe. The Netherlands is among the most advanced producers and home to the majority of companies in this field[205] (Wijnands, 2005). A 'closed network' of breeding companies (Bolo, 2005 in Rangnekar, 2014) develops new varieties of flowers (typically) in their home countries[206] and further exports them to Kenya for trials. There is a clear need to conduct more research into Kenya's flora to identify and potentially develop new indigenous flower varieties for commercialisation locally (Bolo, Muthoka, Washisino, Mwai, & Kisongwo, 2006).[207] However, developing a new breed of a plant is a long, capital intensive and high-risk process that may take up to ten years (Whitaker & Kolavalli, 2006a). This branch of the floriculture sector requires high investments in Research and Development (R&D)[208] and specialised technical knowledge. This technology remains highly protected by international companies and so far, very little knowledge has been transferred to Kenya's national level. Lack of public finance and support for local R&D and public research in this domain in Kenya further exacerbates the barrier of entry to Kenyan companies, allowing this 'closed network' of international companies to regulate the sector in an 'occlusive' manner.

Under strict breeders' licences, young plant material is increasingly propagated at production facilities in low-cost countries. For this technical and highly delicate process, propagating farms in Kenya need to feature high-tech equipment and work according to pre-developed and tested production systems. Technical knowledge necessary in this process is not, however, a limiting factor, as reported – necessary skills are available locally. It is therefore interesting to observe that while local Kenyan investors have been able to enter into the cut flower growing business, the young plant segment remains highly exclusive and dominated by the established European breeding companies (Evers, Opondo, Barrientos, & Krishnan, 2014; Rikken & Van der Hulst, 2012).

Signing UPOV in 1999 and in 2016 was an important step in Kenyan floriculture as it strengthened intellectual property protection in Kenya (Bolo, 2006). It encouraged breeding companies to operate and introduce their flower (and other horticultural) varieties in Kenya. The subsequent diversification of the sector triggered a shift from growing carnations to (more demanding) roses,[209] increasing the importance of economies of scale.[210] This shift also introduced new, powerful actors in the sector that created nearly 'a parallel internal governing structure', as well as affected the local smallholder farmers

[204] Royalties are charged either on the number of stems (small producers) or per Meter Square.
[205] Out of 20 rose breeding companies, 11 are Dutch, three are French and others are British, Spanish and Ecuadorian (own market research and calculations).
[206] In 2016, only one breeding company did the breeding in Kenya.
[207] Mobydick is one of very few local flower varieties that are grown for commercial purposes (Bolo, 2006).
[208] Approximately 15-30% of the turnover of breeding companies are spending on R&D (LEI Wageningen UR, 2011).
[209] Between 1997 and 2003, the number of applications for roses represented 40.4% of the total applications for protection (UPOV, 2005).
[210] As air transport constitutes one of the major costs within the flower value chain, it is important for the growers to produce high 'volumes' of flowers.

who had limited access to improved varieties and other sophisticated technologies necessary to grow roses (Whitaker & Kolavalli, 2006a; Bolo, 2006; Harris, 1992; Munyi, 2015). The consequences of this shift are further discussed in the next section.

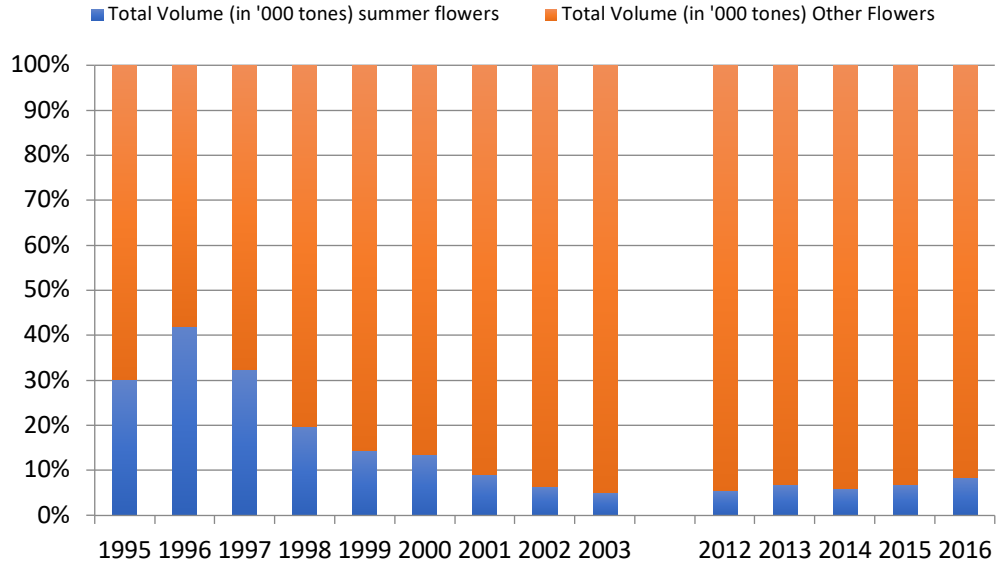
4.5.2 Inclusion of Smallholder flower producers

Smallholder flower production is estimated to contribute about 8% of the flower production for export and 11% of the total value of the flowers exported (Figure 24 and Figure 25). In 2016, its worth was approximately KES 7.7 billion.[211] The HCD categorises small-scale farming to be done on a plot of land less than four hectares (Chege, 2012). KFC estimates that there are approximately 5,000 smallholder farmers involved in flower growing today. Other sources indicate that their number can be between 2,500 and 10,000 (Mitullah et al., 2017; N. Mwangi, 2017; Whitaker & Kolavalli, 2006a). It is not possible to get exact numbers because such statistics are not collected.[212] Smallholder flower farmers predominantly grow summer flowers,[213] often older non-UPOV varieties, as these types of flowers do not require the payment of royalties[214] and can be grown in an open-field with limited technological and capital investments (Bolo, 2006; Mitullah et al., 2017; N. Mwangi, 2017; Whitaker & Kolavalli, 2006a).

The smallholder flower production in Kenya was encouraged in the late 1970s when the GoK tried to indigenise the industry dominated by foreigners (Muthoka & Muriithi, 2008; N. Mwangi, 2017). Smallholder farmers cooperated though outgrowing schemes, which are networks of unorganised smallholder farmers responsible for the coordination of supply, logistics and marketing of the collected flowers (N. Mwangi, 2017). The outgrower production was significant during the late 1980s; since the mid-1990s, however, it dropped as a result of the stricter implementation of breeders rights, declining demand for open field low-value crops and the shift towards rose production (Figure 24) (Kimenya, 1995; Westerman et al., 2005; Whitaker & Kolavalli, 2006a). So far, smallholders' participation and contribution to the overall production and value of the exported flowers is low (Figure 25), although lately their increased involvement in the sector has been observed (Rikken & Van der Hulst, 2012).

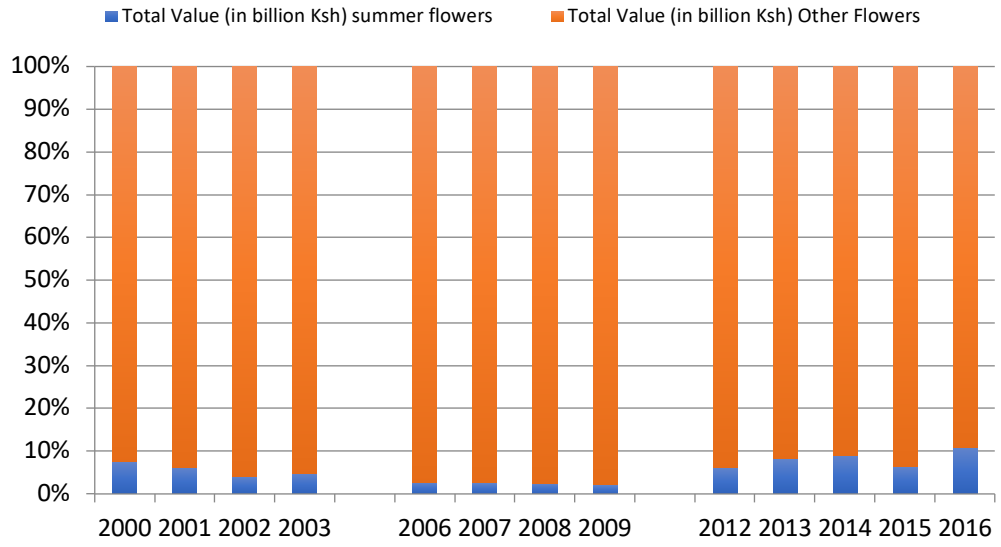
[211] Own calculation based on data provided by AFA/HCD (2016).
[212] The last comprehensive smallholder survey was done in 2010 by Fintrac (2010).
[213] 'Summer flowers' is the general name given to flower species traditionally grown during summer in northern Europe. They include: Alstroemeria, Eryngium, Arabicum, Polianthes tuberosa, Ornis, Cyperus alternifolius, Rumohra abiantiformis, Mobydick-Asclepias, Molucella, Lilies, Agapanthus and Limonium sinuatum, just to mention a few (Muthoka & Muriithi, 2008). Some of these varieties are used as additions to a bouquet of greenhouse varieties such as roses or chrysanthemums (N. Mwangi, 2017).
[214] Although it also often means lower prices on the market (Whitaker & Kolavalli, 2006a).

Figure 24. Share of the smallholder summer flowers in the flower export production (1995-2016)



Note: For years 1995-2000, the calculations include the production of only Alstroemeria, Limoniu and cut foliage.
Source: Own calculations based on (AFA/HCD, 2016; AFFA, 2014; Fintrac, 2010; Muthoka & Muriithi, 2008; Whitaker & Kolavalli, 2006a).

Figure 25. Share of the smallholder summer flowers in the value of flower export (2000-2016)



Source: Own calculations based on (AFA/HCD, 2016; AFFA, 2014; Fintrac, 2010; Muthoka & Muriithi, 2008; Whitaker & Kolavalli, 2006a).

Despite limited participation, Kenya is the only country in the world where smallholders grow cut flowers for export (N. Mwangi, 2017). Smallholders venturing into floriculture are generally experienced farmers who grow cut flowers as a diversification strategy from other (high value) crops (Mwangi, 2017). They perceive floriculture as profitable and an opportunity to become more financially secure (Fintrac, 2010; Kirigia et al., 2016; N. Mwangi, 2017). Nevertheless, they face challenges in becoming fully included in the sector.

The first major challenge is their lack of access to the international export market. The auction works best for smallholders because it absorbs all supply, irrespective of volumes and varieties and has minimal restrictions in terms of entry certifications (English et al., 2006; N. Mwangi, 2017). A 'direct' market, by contrast, requires a constant supply of (often a high volume) of flowers that meets strict standards (N. Mwangi, 2017; Rikken & Van der Hulst, 2012). Assuring consistent quality and quantity poses a difficulty for the smallholders, as unpredictable rain patterns cause fluctuations in seasonal production (Fintrac, 2010; Muthoka & Muriithi, 2008; Rikken & Van der Hulst, 2012). Hence, access to the international export market remains problematic. Some smallholders have started to focus more on less competitive local markets (Rikken & Van der Hulst, 2012). Street vendors and floriculture shops in high-/medium-class urban shopping centres increasingly sell flowers. Interestingly, the majority of street flower vendors belong to the informal economy, but a growing number is venturing into formalisation through the Flower Vendors Association (FVA).[215] Currently, the market is limited and the quality of the flowers sold at the local market is inferior compared to the produce dedicated for export, which, consequently, means lower prices and marginal profits for the local vendors.

Producing large volumes of flowers is a prerequisite to profitability in the floriculture sector and poses a second major challenge for smallholders. Therefore, most of the summer flowers are consolidated and sold through specialised export companies or exporters, who also grow and export their own flowers. Such partnerships have both advantages and disadvantages. On the positive side, the smallholders gain new knowledge on how to improve their flower production and access to international export markets. The intermediary also takes care of the substantial costs related to cold storage and transport, which are critical in maintaining the required quality of the product (Rikken & Van der Hulst, 2012; Whitaker & Kolavalli, 2006a). However, the middlemen keep the purchase prices low or fail to honour agreements, which may lead to high losses for the farmers (Bolo, 2006). Only a few farmers have managed to evolve beyond the outgrower schemes and open their own export companies (N. Mwangi, 2017).

Thirdly, smallholders reportedly face challenges in implementing international standards and gaining internationally recognised certifications, which (as described above) are designed for medium- and large-scale productions, thus making it almost impossible to apply from the position of small-scale production (English et al., 2006; Fintrac, 2010; PASGR and CABE, 2016; Rikken & Van der Hulst, 2012). KFC has acknowledged this problem and has been working towards a greater inclusion of the smallholders by developing a Smallholder Code of Practice that will provide guidelines for smallholders to adhere to in order to facilitate their access to competitive and regulated international markets. This has not yet been scaled up beyond the local level.

Fourth, the sector relies heavily on imported flower varieties for which farmers have to pay royalties (Bolo et al., 2006). Smallholder farmers access seed and planting materials predominantly through exchange and/or selling farm-saved seed (McGuire & Sperling, 2016). Nevertheless, the current plant breeders' rights policy prohibits them from such practices for protected varieties (Munyi, de Jonge, & Visser, 2016). In some cases, the export firms provide farmers with inputs (N. Mwangi, 2017) but in most cases smallholder farmers are forced to grow older non-UPOV varieties, as they cannot afford the high costs of royalties for the high-quality and 'trendy' planting material (Bolo, 2006; Kimenya, 1995; Rikken, 2011). Even if they can afford these, it was reported that the breeders themselves exclude smallholders. Breeders refused to sell the rights to their high-quality varieties to smallholders so they could regulate the supply of a particular breed to the market and decide who sells (and earns from) that breed.

Finally, other barriers for smallholders include access to relevant information and financing, long delays in VAT refunds, weak institutional and infrastructural support, absence of government extension

[215] FVA was formed with support of the KFC in 2007 and currently it has approximately 200 members (Own interviews, 2016; Daily Nation, 2008; N. Mwangi, 2017).

services, dependence on family labour and continued fragmentation that limits their voice in negotiating with investors and other actors in the industry (Bolo, 2006; Kimenya, 1995; Mitullah et al., 2017; Muthoka & Muriithi, 2008; PASGR and CABE, 2016; Van Der Velden et al., 2017; Zylberberg, 2013).

Smallholder flower production may represent a real opportunity for greater inclusiveness of the sector (as it did in the tea sector, see Chapter 3). Inclusion and integration of marginalised smallholders in agricultural production is being seen as a potential engine for large-scale poverty reduction and food security in most agriculture-based economies (The World Bank, 2009b; The World Bank, 2008; Salami et al., 2010; Rikken & Hulst, 2012; Zylberberg, 2013; English et al., 2006). Nevertheless, in Kenya so far, with limited involvement of smallholders in floriculture, the industry's inclusiveness and impact on poverty reduction has primarily been from employment in medium- to large-scale flower farms[216] and in the companies in the supply chain (Whitaker & Kolavalli, 2006a; Zylberberg, 2013). I turn to this in the next and final section of this chapter.

4.5.3 Employment Issues

Floriculture is a labour intensive industry and, consequently, a sector generating much-needed employment opportunities, often for unskilled female workers (Evers et al., 2014; Kirigia et al., 2016; Mitullah et al., 2017; Mlynska et al., 2015). The sector has accounted for over 65% of the new jobs created between 2010 and 2015 in the Kenyan agricultural sector (Mitullah et al., 2017). The KFC estimated that in 2010 the sector generated about 90,000 jobs directly at flower farms and about 500,000 indirectly in the value chains and related activities (KFC, 2017). Although these estimates may be slightly outdated,[217] they demonstrate the significance of the sector.

Despite being one of the most codified industries in the world (Dolan & Opondo, 2005; Lowthers, 2015; Riisgaard, 2007; Wijnands, 2005), the working conditions and labour standards in the industry have continuously been a subject of debate (Barrientos, Dolan, & Tallontire, 2001; Barrientos & Smith, 2007; Dolan & Humphrey, 2000; Dolan & Opondo, 2005; Dolan et al., 2002; Evers et al., 2014; Gibbon & Riisgaard, 2014; Hale & Opondo, 2005; KHRC, 2012; Leipold & Morgante, 2013; Loukes, 2008; Mlynska et al., 2015; V. Nelson, Martin, & Ewert, 2007; Ouma, de Feyter, de Haan, & Van der Stichele, 2008; Riisgaard, 2007; Smith et al., 2004). It is argued that within the last decade, the (voluntary) codes and certifications, as well as the improved national employment policy,[218] did indeed contribute to the improved working organisation (Riisgaard & Gibbon, 2014), environmental aspects and (to some extent) labour conditions (Evers et al., 2014; Hale & Opondo, 2005; Loukes, 2008; Nelson et al., 2007; Riisgaard, 2007; Vasagar, 2006; Wilshaw, Sahan, Boyle, Knaggs, & Neil McGregor, 2013). However, the

[216] A survey carried out by the Institute of Development Studies (McCulloch & Ota, 2002) concluded that households in Kenya involved in export horticulture (entrepreneurs, but mainly labourers in production and post-harvest handling) are better off than those, which are not, particularly in rural areas. The results indicated that enabling more households to participate in the sector could substantially contribute to poverty reduction in both urban and rural areas (Westerman et al., 2005).

[217] The same estimates have been in circulation since 2010 (Maina et al., 2011; Perry, 2012). Within the last eight years, the sector expanded in terms of production and it should be expected that this expansion has also generated additional employment. Unfortunately, there is no reliable data, also regarding employment among smallholders, as the Ministry of Agriculture (nor their extension services) does not collect them on a regular basis.

[218] The 2007 Employment Act guarantees that permanent employees are entitled to annual leave, sickness benefits, pension contributions, housing (or housing allowance), three months of paid maternity leave plus one month of paid annual leave for women and 14 days of paternity leave for men. Lactating mothers have the right to breastfeeding time and lighter duties during pregnancy (Evers et al., 2014). However, our fieldwork indicated that enforcement of these laws appears to be not standard procedure.

concerns and expectations of the workers themselves have not yet been fully addressed (Barrientos & Smith, 2007; Dolan & Humphrey, 2000; Dolan et al., 2002; Lowthers, 2015).

One of the most prevailing topics is the issue of the living wage[219] still not being achieved (Anker & Anker, 2014, 2017; HIVOS, 2018; Keter, 2017; Kirigia et al., 2016; Mlynska et al., 2015; Potjer, Bergman, Scholte, & Bani, 2015; Renon, Rusman, Zwart, Martinius, & Michel Scholte, 2018). The Global Living Wage Coalition suggested that the level of 14,000 Ksh (±US $135) per month would be adequate in the rural areas, yet it is not sufficient for the urban regions, where they estimate the living wage to be US $216 per month (Global Living Wage Series, 2016; Renon et al., 2018). The basic salary rates in the flower sector, as per Collective Bargain Agreement (CBA), are higher than the legal minimum wages for the agricultural sector (Anker & Anker, 2014; Dolan et al., 2002; Hale & Opondo, 2005; Kirigia et al., 2016; Potjer et al., 2015) and some breeding companies reportedly pay wages that surpass the (rural) living wage standard for production workers. Most of the companies are committed to equal pay, yet some visible differences between the salaries offered to female and male workers can be found. This study indicates that gender does not seem to be a discriminatory factor with regard to salary provisions. On the contrary, in some surveyed cases, female workers are paid better than their male counterparts. However, in most cases, the gender discrepancy can be understood by taking into consideration the duration of work within the company.

Regarding gender inclusion, the sector is known to attract many female workers. The tasks within the sector, especially regarding growing and production, are often distributed according to gender. For instance, women are predominately flower pickers, graders and packers; while men are hired as sprayers, irrigators, cold storage workers, maintenance, security, greenhouse workers and management (Dolan et al., 2002). Our findings confirmed that men also perform most of the executive tasks, although it has been estimated that 16% of the flower farms are currently owned by women, which could indicate that the number of female executives in the sector is on the rise.

Women are, however, not adequately represented in the structure and leadership of the trade union. KPAUW is considered to have a strong hierarchical and top-down controlled structure (KHRC, 2012; Riisgaard, 2007, 2009b), with poor governance, either caused by limited resources at branch level, demoralised officials, or simply lack of accountability on workers' funds (KHRC, 2012). The process of negotiations of the CBA also remains top down and does not involve much participation of the directly affected workers, especially women. Despite some improvements in the last years, the trade union is still considered inefficient and unprofessional, with cases of nepotism and patronage being mentioned on a number of occasions (Kazimierczuk, 2016).

Despite a much higher proportion of workers now being employed on a permanent basis, job insecurity persists[220] (Evers et al., 2014; Kuiper & Gemählich, 2017; Mlynska et al., 2015). The power of workers is generally weak: especially unskilled workers often remain marginalised and vulnerable (Wilshaw et al., 2013). There is limited awareness among workers about their rights to join the trade union and about the potential benefits of unionisation (Wilshaw et al., 2013). It is rather common that companies do not involve workers in the drafting of their internal policies and also do not effectively communicate these to their employees (KHRC, 2012; Smith et al., 2004). Despite the many improvements in the sector, much depends on the willingness and the ability of the company directors and managers to meaningfully implement the existing standards. Consequently, the employment provided by the sector cannot yet be considered fully productive.

[219] A living wage should be "sufficient to afford a decent standard of living for the worker and her/his family. Elements of a decent standard of living include food, water, housing, education, healthcare, transport, clothing and other essential needs including provision for unexpected events" (Anker & Anker, 2014: 6).

[220] The Employment Act (2007) stipulates that employees who work consecutively for three months on a casual basis should be contracted as permanent (Evers et al., 2014).

4.6 Conclusions

The aim of this chapter was to examine the current state of the flower sector in Kenya and trace the processes behind the sector development, as well as to investigate the role of the international (especially Dutch) capital in this process. The sector-wide survey provided insights into differences between practices and quality of employment created by the international players, particularly Dutch companies compared to the non-Dutch counterparts. As stabilised African capitalist agricultural production linked to global value chains and an important 'industry without a smokestack', Kenyan floriculture is in the position to generate quality jobs and create substantial spill over to the local economy, thus generate inclusive development outcomes. However, as this case study showed, its full potential for inclusivity has not yet materialised while the process has been long and not fully inclusive either. The internal power structure and the plethora of international certification standards have resulted in limited knowledge sharing, exclusion of smallholder flower farmers and slow progress towards more productive employment.