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Afrika: hulp & handel in perspectief - lessen uit het veld

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Parlement en Wetenschap

Factsheet AFRIKA: HULP & HANDEL IN PERSPECTIEF - LESSEN UIT HET VELD

Deze factsheet is tot stand gekomen in het kader van de samenwerking van de Tweede Kamer met De Jonge Akademie, de Koninklijke Nederlandse Akademie van Wetenschappen (KNAW), de Nederlandse Federatie van Universitair Medische Centra (NFU), de Nederlandse Organisatie voor Wetenschappelijk Onderzoek (NWO), TNO en de Vereniging Universiteiten van Nederland (UNL).

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Samenvatting en aanbevelingen

In 2013 introduceerde toenmalig minister van Ontwikkelingssamenwerking en Buitenlandse Handel, Lilianne Ploumen, de beleidsnota 'Wat de wereld verdient: Een nieuwe agenda voor hulp, handel en investeringen' als nieuwe beleidsrichtlijn. Het kabinet omarmt in de nota drie ambities: het uitbannen van extreme armoede in één generatie, het stimuleren van duurzame en inclusieve groei overal ter wereld, en succes voor Nederlandse bedrijven in het buitenland. Dit was een duidelijke paradigmaverschuiving, gericht op het creëren van 'win-win scenario's' waarin Nederlandse bedrijven hun winst zouden kunnen vergroten en tegelijkertijd zouden kunnen bijdragen aan duurzame ontwikkeling. Tien jaar later concludeert de directie Internationaal Onderzoek en Beleidsevaluatie (IOB) dat de focus op de private sector binnen ontwikkelingssamenwerking nog steeds een voor de hand liggende en relevante keuze is, dat er groot potentieel is voor synergie tussen de twee beleidsterreinen, maar dat dit potentieel nog maar beperkt behaald wordt. De IOB pleit daarom voor meer coherentie en afstemming van het Nederlandse beleid op de lokale context en lokaal gedefinieerde prioriteiten.

Het verder integreren van Afrikaanse landen in mondiale waardeketens wordt in dit kader als een belangrijke weg voor groei en ontwikkeling gepresenteerd en als zodanig een belangrijke beleidsprioriteit voor de Nederlandse Afrika-strategie. De onderliggende veronderstelling is dat opname in waardeketens leidt tot economische groei en armoedebestrijding op het continent. Onderzoek naar de rol van multinationals in Afrika vertelt echter een genuanceerder verhaal over hoe handel en participatie in waardeketens zich verhouden tot inclusieve ontwikkeling. Het laat zien hoe bedrijven stuiten op een weerbarstige praktijk waarin contextuele en politieke dynamieken een belangrijke rol spelen en de ontwikkeling van voorwaartse en achterwaartse verbindingen ('*backward and forward linkages*') in waardeketens zorgvuldig moeten worden overwogen.

Voortbouwend op resultaten uit wetenschappelijke literatuur en veldonderzoek uitgevoerd door het Afrika Studiecentrum van de Universiteit Leiden, deelt dit paper inzichten over

de rol en impact van Nederlandse bedrijven in mondiale waardeketens op het Afrikaanse continent. Het beoogt zo antwoord te geven op de volgende vragen:

- In hoeverre gaat de focus op waardeketenontwikkeling in Afrika verder dan een traditionele handelsbenadering en wat betekent dit voor inclusieve ontwikkeling?
- Op welke manier kan Nederland de integratie van Afrikaanse economieën in de mondiale waardeketens ondersteunen om inclusieve ontwikkeling op het continent te maximaliseren?

Aanbevelingen en geleerde lessen

- Internationaal (handels)beleid veronderstelt een *'trickle down'* van economische groei, middels marktwerking. Dit paradigma is achterhaald en maakt in toenemende mate plaats voor een discours van inclusieve ontwikkeling dat rekening houdt met marktverstoringen en het belang van (her)verdeling.
- Investeren in lokale toeleveranciers en toegevoegde waarde door lokale waardeketens verder te ontwikkelen en Afrikaanse bedrijven en ondernemers bij mondiale waardeketens te betrekken, is de belangrijkste strategie om inclusieve ontwikkeling te stimuleren.
- Investeren in kennisuitwisseling en technologieoverdracht door multinationale bedrijven aan lokale spelers is essentieel om de ongelijkheid en kwetsbaarheid van Afrikaanse boeren in de waardeketen aan te pakken.
- Internationale standaarden en subsidies voor de private sector kunnen bedrijven stimuleren hun winsten niet te repatriëren maar in Afrika te investeren. Deze instrumenten moeten echter zorgvuldig worden beheerd om marktverstoring te voorkomen.
- De overheid moet het Nederlandse bedrijfsleven aanmoedigen om verder te gaan dan MVO-richtlijnen opdat ze hun strategische positie in waardeketens en innovatief vermogen gebruiken om op een schaalbare en financieel duurzame manier bij te dragen aan ontwikkeling.

1. Introduction

In December 2022, Dutch Minister for Foreign Trade and Development Cooperation, Liesje Schreinemacher, announced to African ambassadors that cooperation with Africa should foremost be guided by 'sincere and mutually beneficial partnerships'.¹ The policy paper titled 'Doing what the Netherlands is good at' on the role of Aid and Trade in the Dutch foreign agenda underlines this message with 'realistic optimism',² stating the Netherlands intends to focus on 'what clearly works, and on the very best Dutch sectors and knowhow'.³ Increased integration of African countries in global value chains has in this regard been marked as an important pathway for growth and development and as such a clear policy direction for the Dutch Africa strategy. The underlying assumption is that inclusion into value chains will lead to economic growth and poverty reduction on the continent. However, research into the role of multinational companies in Africa tells a more complicated story about how trade and participation in value chains relate to inclusive development on the continent. It also shows how other factors, such as local

¹ <https://www.government.nl/documents/speeches/2022/12/05/speech-liesje-schreinemacher-africa-strategy>

² <https://www.thebrokeronline.eu/doing-what-were-good-at-but-to-what-end/>

³ <https://www.government.nl/latest/news/2022/06/24/new-policy-document-foreign-trade-development-cooperation>

contextual and political dynamics and the development of backward and forward linkages in the local economy should be carefully considered. The question therefore is: *To what extent does the focus on value chain development in Africa go beyond a traditional trade approach and what does it mean for inclusive development?* And subsequently, *In what way can the Netherlands support the integration of African economies in the global value chains to maximise inclusive development on the continent?*

To explore these questions further, it is important to place the current discussion on the role of aid and trade into a broader perspective with insights from research, policy and practice. This will ensure that the Africa strategy is built on strong theoretical and empirical foundations and can build upon key lessons from policy and practice. This position paper aims to contribute to that aim by sharing insights from field research on the impact of the Dutch private sector in global value chains on the African continent.⁴

2. The development of the Dutch Aid and Trade policy

This year marks the ten-year anniversary of the launch of the Dutch Aid and Trade agenda by former Minister of Foreign Trade and Development Cooperation Lilianne Ploumen in the 2013 report 'A World to Gain' (In Dutch: 'Wat de wereld verdient'). The newly formulated policy direction pursues three main objectives at international level: eradicate extreme poverty, promote sustainable and inclusive development worldwide, and facilitate Dutch companies abroad.⁵ Although public support for private sector development has been around since the 1960s, this policy directive presented a clear shift that places the mutuality between aid and trade at the heart of Dutch development policy.

Since the 1990's, private sector development (PSD) instruments, such as ORET and PSI (Development-related Export Transactions programme), PSOM (Programme for Cooperation with Emerging Markets), and PSI (Private Sector Investment program) gained increased importance and new financing mechanisms such as the Dutch Good Growth Fund were established to stimulate Dutch businesses venturing into new and risky markets or value chains. In return for these subsidies and loans, Dutch companies were required to adhere to international CSR principles and create decent employment opportunities in the 'host country'. To support these efforts, the role of embassies expanded and diplomatic posts were expected to engage in 'economic diplomacy', providing companies with the relevant local knowledge and networks. Creating synergies between business, development and policy would as such create a 'win-win scenario' where Dutch companies would be able to expand their markets and increase their profits while at the same time contributing to sustainable development.

In the latest policy note, titled "*Doing what the Netherlands is good at*", Minister of Foreign Trade and Development Cooperation Liesje Schreinemacher, doubles down on this promise of creating mutually beneficial relations between business and development

⁴ Please note that the insights presented in this paper are grounded in the empirical findings of the selected case studies and as such do not represent a systematic review of value chains, countries and policy instruments. These insights cannot as such be unilaterally applied to Dutch businesses operating in Africa, but rather, should be used to gain more knowledge on the potential challenges and opportunities that arise in the context of the aid and trade agenda in Africa.

⁵ Beleidsnota "Wat de wereld verdient: Een nieuwe agenda voor hulp, handel en investeringen". Accessed via: <https://www.tweedekamer.nl/downloads/document?id=2013D14362>

and the cabinet has promised to increase spending on aid and trade by EUR 134 million in 2023. This brings the total spending on the combined aid and trade efforts to 518 million euros which will be further increased to 571 million euros in 2027.

A recent evaluation by the Policy and Operations Department (IOB) concludes that focusing on the private sector within development cooperation is still an obvious and relevant choice and there is great potential for the two policy areas to reinforce each other.⁶ At the same time, the IOB is critical of how this agenda has been fleshed out by the Dutch government over the past decade and concludes there is a lack of evidence on the long-term development impact of Dutch companies. As the report states (p. 23): *'The desire to position the Dutch private sector as an instigator of (sustainable) development encounters a difficult reality in practice. Dutch companies are showing little interest in developing countries, especially when it comes to making investments.'*⁷ Hence, the IOB calls for more guidance in aid and trade policy through better cooperation and policy coherence.

An analysis of the latest policy note by The Broker⁸ shows that although the Ministry acknowledges the conclusions from the IOB evaluation, the policy note does not go into detail on how the Dutch government wants to increase the impact of Dutch businesses on sustainable development and how the intention to align Dutch policy with the "local context and locally defined priorities" will be implemented. A closer look at how these intentions translate to the local context is therefore warranted.

From trickle down to inclusive development

To maximise synergies between aid and trade in the Dutch policy agenda for Africa requires taking a closer look at the interaction between these two domains on the continent, both from a macro-economic and context-specific perspective, which reveals a complicated and intricate story.

Before the onset of the COVID pandemic, the African continent experienced remarkable GDP growth with Sub-Saharan Africa averaging 5% per year since 2000. However, this growth has not resulted in structural transformation of economies with productive employment. High levels of inequality and unemployment remain⁹ constraining prospects for future growth.¹⁰ Research by the IMF, that was based on 159 economies, shows that growing income inequality has a negative effect on future economic growth, while increasing the income share of lower and middle classes actually increases future economic growth.¹¹ The "trickle down" paradigm (see box 1) that has been prominent for

⁶IOB (2023) Rapport Gedeelde belangen en wederzijds profijt. Beleidsdoorlichting BHOS artikel 1. Accessed via: <https://www.rijksoverheid.nl/documenten/rapporten/2022/02/01/bijlage-2-iob-rapport-gedeelde-belangen-wederzijds-profijs-beleidsdoorlichting-bhos-artikel-1>

⁷ The IOB report shows that the synergy of the aid and trade agenda is to date most apparent in middle-income countries where Dutch companies can find a potential market for their relatively expensive products and services. However, the same impact is not visible in lower-middle income and low-income countries.

⁸ <https://www.thebrokeronline.eu/aid-trade-in-rutte-iv-room-to-embed-lessons-for-mutual-benefit/>

⁹ Chelangat et al., (2021): "Government Youth Employment Policies and Programmes that Advance Inclusive Growth in Africa" INCLUDE. Accessed via: <https://includeplatform.net/publications/government-youth-employment-policies-and-programmes-that-advance-inclusive-growth-in-africa/>

¹⁰ <https://www.wider.unu.edu/publication/development-policy-era-robots>

¹¹ Dabla-Norris, E, Kochlar, K. , Supahiphat, N., Ricka, F. Tsounta, E. (2015) *Causes and Consequences of Income Inequality: a Global Perspective*, International Monetary Fund Staff Discussion note, June, SDN/15/13

decades has proven not to work and has to make way for a new discourse of inclusive growth and development¹² or shared prosperity;¹³ providing more equitable opportunities for economic participation to enable low- income populations to benefit from economic growth both in monetary and non-monetary terms. Some would even go as far as to say that we need to shift towards a 'trickle up' narrative¹⁴, that starts out from the perspective of vulnerable and marginalised groups by focusing on pro-poor investments to drive economic growth and inclusive development.

BOX 1: Trickle-down economics

Trickle-down policies pre-supposes that financial benefits such as tax cuts given to big business, will free up resources that may be invested to boost productivity, increase employment, with additional economic advantages accruing down the chain to smaller businesses and consumers. Although, in theory, this makes economic sense, in practice, such trickle down does not or only partially take place. David Hope and Julian Limberg of the London School of Economics (LSE) [showed](#) that despite over five decades of tax cuts in 18 wealthy nations, trickle down policies consistently benefited the wealthy and had no meaningful effect on unemployment or economic growth.

Trickle-down policies trialled under former US President Reagan and the UK's former Prime Minister Thatcher resulted in huge budget deficits and widened inequality. The latest attempt to apply trickle-down economics was recorded in the UK by erstwhile Chancellor Kwasi Kwarteng under former Prime Minister Liz Truss who unveiled the largest tax cuts in half a century, confident that these would propel GDP growth which spurred the International Monetary Fund to urge Prime Minister Truss to "re-evaluate" her tax-cutting plan, saying it will "likely increase inequality". After disappointing results and sharp criticisms across the aisle, both the Chancellor and the Prime Minister exited their posts.

Facilitating inclusive development requires policies that create an enabling environment for both public and private actors. For Dutch businesses operating in Africa, a conducive business environment that includes regulatory frameworks, contract enforcement and macroeconomic stability¹⁵ is crucial to mitigate significant institutional voids and resource constraints such as unstable regulatory systems, patrimonialism, (ethnic) clientelism and limited enclaves of bureaucratic expertise.¹⁶ Operating in foreign markets, the private sector is dependent on the business environment, but generally not in a position to challenge the status quo. Without policy intervention the risk is that businesses will actually promote and reproduce the existing power structures in order to ensure their own survival.

¹² For more research on inclusive development visit the website of INCLUDE: www.includeplatform.net

¹³ World Bank. (2016) *Poverty and Shared Prosperity 2016: Taking on Inequality*. Washington, DC: World Bank. doi:10.1596/978-1-4648-0958-3

¹⁴ See The Broker (2019) *Trickle up: how pro-poor investments drive economic development*. Accessed via: <https://www.partos.nl/wp-content/uploads/2021/05/Trickle-up-How-pro-poor-investments-drive-economic-development.pdf>

¹⁵ Zulkhibri, M. (2018) *Rethinking the Catalytic Role of the Private Sector for Inclusive Growth*. Journal of Development Policy and Practice, 3(1), 41-54. <https://doi.org/10.1177/2455133317737937>

¹⁶ Mair, J; Marti, I (2009) *Entrepreneurship in and around institutional voids: A case study from Bangladesh*. Journal of Business Venturing, 24(5), 419-435

As a consequence of the above, most of these businesses are reluctant to undertake capital intensive investments and investments with long gestation periods. Consequently, companies usually focus on integrating their African operations with their global value chains rather than developing local value chains (i.e. backward and forward linkages) that are based on the specificities of their host environment and open up economic space for local entrepreneurs. In the eyes of such companies, Africa is seen as a consumer market rather than a place for production and value addition. Another result of the above dynamics, is that most foreign businesses adopt active dividend policies and take the value of assets and capital out of Africa to Europe, also known as capital flight (see box 2). This explains why profits legally repatriated by multinational companies in 2015 were more than twice the amount of Net Foreign Direct Investment (FDI) into Africa in the said year. It was also more than the official aid received from all OECD countries. Despite often being portrayed as being on the receiving end, the reality is that Africa remains a net exporter of capital and the role of the private sector, and in particular multinational corporations, in development cannot be overstated.

According to UNCTAD's Economic Development in Africa Report 2020, curtailing capital flight by eliminating tax avoidance, nurturing domestic businesses and encouraging multinationals to invest in local value chain development could almost cut in half the annual financing gap of \$200 billion that the continent faces to achieve the Sustainable Development Goals.¹⁷

BOX 2: Capital flight out of Africa

Globally, the combined effort of aid, trade, remittances and investments brings 160 billion dollars a year to Africa, while over 200 billion dollars a year flows out of the continent. According to a 2017 study by a group of NGOs led by [Global Justice](#), net capital export from Africa in 2015 was over \$41 billion. The biggest source of capital export was through multinational businesses which exported over \$31b as legitimate dividends from their investments in Africa. This was almost 1.7 times the net OECD official aid to the continent and more than double the net Foreign Direct Investment equity in the continent in the same year. Finally, Africa lost over \$67b through illicit financial flows, the majority of this loss was attributed to illicit business practices like over-invoicing and transfer pricing.

3. Aid & Trade in practice - Dutch multinationals in Africa

To facilitate inclusive development in Africa in the context of the Dutch aid and trade policy, the challenge is to figure out how to create a so-called 'win-win' scenario for Africa and the Netherlands. As the majority of the population in low- and lower middle income Sub-Saharan African countries live in rural areas and will continue to live there for the foreseeable future, agriculture will remain the largest source of employment and income, at least for the next decade. This applies especially to youth and women. The rural economy is as such an important engine for economic growth and development, and offers the highest potential for employment creation and development in the short-

¹⁷ UNCTAD (2020) *Economic Development in Africa Report 2020. Tackling Illicit Financial Flows for Sustainable Development in Africa*. Accessed via: https://unctad.org/en/PublicationsLibrary/aldcafrica2020_en.pdf

term.¹⁸ Dutch multinational businesses can play an important role in Africa's rural economy and as such offer a good opportunity to learn from in terms of what works and what does not in stimulating value chain development in Africa. In the section below, we present three case studies of Dutch multinationals in the agricultural and floriculture sectors that show how Dutch multinational businesses operate in Africa and to what extent they contribute to the achievement of inclusive development.

Case 1: FrieslandCampina and the dairy industry in Nigeria¹⁹

Since the milk quotas were abolished in 2015, Dutch milk production has grown exponentially and Dutch companies are increasingly looking for new markets for the excess milk that is produced by the over 18,000 dairy cooperative members in Germany, Netherlands, and Belgium. Dutch-owned multinational FrieslandCampina turned to West-Africa as a promising market opportunity for the excess milk. Within West-Africa, Nigeria is the largest importer of dairy products. Available statistics show that up to 98% of the total dairy products consumed in the country are imported and 75% of the dairy market is controlled by the Dutch multinational's local subsidiary FrieslandCampina WAMCO (FCW).

Good for business, bad for inclusive development

Within the dairy industry, Western technological advancements now allow for the extraction of the more expensive butter fat from fresh milk in Europe and for the residue product to be mixed with cheaper palm oil to create Fat Filled Milk Powder (FFMP). Although this product is less nutritious and is rarely sold in Europe, it has found a very good market in Africa and is the core of FrieslandCampina's business model in Nigeria. Despite the fact that Nigeria has about five times more cattle heads than the Netherlands, FCW only sourced three percent of its milk raw material in Nigeria from the local dairy industry in 2020. Furthermore, cattle breeding and milk production in Nigeria may be cheaper than in the Netherlands in the absence of subsidies and the cheaply imported FFMP. It is this competition between two dissimilar milk raw materials for FrieslandCampina in Africa that has at least in part made their highly advertised Dairy Development Programme (DDP) in Africa not to be sustainable in the long run. Consequently, while the FrieslandCampina model of finding value for European dairy farmers is an excellent business model, it is a poor model for the development of the African dairy sector.

Moreover, dairy companies like FrieslandCampina that focus on Africa as a market do not invest their profits back into the continent. Rather they routinely declare and export the maximum profits possible from their local African subsidiaries. Although such companies usually defend their active dividend policies on the grounds that the African economic space is very risky for long-term development, the reality is that these policies may actually be contributing to the instability of the African economic space. In the long run,

¹⁸ <https://includeplatform.net/publications/rural-youth-employment-in-africa-an-evidence-review/>

¹⁹ Full case description please consult: Ogbuagu E, Ezeoh A and Uche C., (2020) *The role of multinational corporations in local dairy value chain development: case of Friesland Campina WAMCO (FCW) in Nigeria*, International Food and Agribusiness Management Review Volume 23, Issue 1, 2020, PP 55-69

this promotes local disaffection with the activities of such multinational businesses and limits their development impact in Africa.

Main conclusion: The use of European agricultural subsidies and technologically modified FFMP to exploit the African dairy market is not inclusive nor sustainable. Moreover, the active dividend policies of multinational companies like FrieslandCampina do not only breed disaffection with African economies, but also shrink the market that the European dairy industry aims to exploit. Using aid to encourage dairy companies to pursue fair practices and engage Africans in their value chains would help widen the market for dairy in the country, thereby creating a win-win for business and society.

Case 2: Heineken and the sorghum value chain in Nigeria²⁰

Sorghum is an important staple crop in Nigeria, ranking in the top three of the country's annual production of grains. In January 1988, Heineken's subsidiary, Nigerian Breweries (NB), started to use locally grown sorghum in their brewing process after the Nigerian military regime banned the importation of barley for national beer production. Despite the potential this decision presented to develop the local value chain, no clear national sorghum development strategy was put in place. Therefore, NB in partnership with Heineken took the lead in sorghum research and development in the country. Over 30 years have passed since this strategic decision became the catalyst for the creation of an industrial market for sorghum. The socio-economic and agronomic dynamics of the local sourcing of sorghum has shaped farmer and supplier communities in Nigeria profoundly and shows how the intervention of a multinational business such as Heineken can play an important role in economic and social development dynamics in Nigeria.

Development of two chains

NB and Heineken have invested in the development of the local sorghum value chain in Nigeria by focusing on the development of two chains simultaneously: the seeds chain and the harvested product chain. To ensure a steady supply of sorghum for its production, Nigerian Breweries, with the support of Heineken, bore the heavy costs of the development of improved varieties of sorghum seeds that provided better quality and higher yield of sorghum. As a result of these investments, sorghum malting plants sprung up, jobs were generated, value was created, and the new open-pollinated sorghum varieties rose to constitute over half of all sorghum harvest in Nigeria.

The company instituted a 50% buy-back scheme to ensure a steady and guaranteed supply of sorghum and enable the company to maintain stronger oversight of the value chain. With the buy-back scheme the company directly distributed the seeds to farmers for cultivation, with the intention to buy back harvested sorghum directly from these farmers at a 10% premium on market prices. However, down the line the company proved reluctant to offer the 10% premium at the time of purchase and it was not clear if NB wanted to deduct the value of the seed provided from the price paid to farmers. Moreover, there was a general dissatisfaction among farmers regarding the annual payment plans, which made it difficult to meet mid-season expenditure. These issues led

²⁰ For the full case description please consult: Akinyoade A, Ekumankama O, & C. Uche, (2016) *The use of local raw materials in beer brewing: Heineken in Nigeria*, Journal of the Institute of Brewing & Distilling.

to NB scrapping the buy-back scheme and re-designing its approach for obtaining sorghum by registering a new class of supplier called 'vendors'. Sourcing sorghum through contracted vendors was the alternative given their strong local capacities, experience in working with malting companies, as well as already established networks for obtaining sorghum from farmers and aggregators in the rural areas. Vendors thus became the crucial link in the supply chain between NB and sorghum farmers.

The new vendor scheme enabled vertical integration of sorghum farmers in the industrial value chain signaled by expansion in farm acreage, higher income for the farmers, increased food security, and stable gainful employment in sorghum supply business. However, the vertical integration also led to the crowding out of subsistence farmers as 70% of sorghum supplied to NB now came from middle- and large-scale farmers. The domination of larger scale farmers in the sorghum supply had two major consequences: firstly, a new agricultural labour market structure; and secondly, gradual exclusion of small-holder farmers in the value chain. Regarding the former, as farmers increased their acreage in conditions of minimal mechanisation and reliance on human labour, small holder farmers and other wage labour seekers increasingly got engaged as farm hands in these emerging larger farms. This brought about changes in the dynamics in the existing value chain between vendors, aggregators, and farmers. Data shows that hired farm-hands are often paid below minimum wage and that family and child labour constitutes a portion of the farm work. Regarding the latter, this led to a loss of direct market opportunities for smallholder farmers as they got displaced in the value chain.

Main conclusion: Local value chain development requires large scale investments in terms of human, financial and material capital borne by the MNC. These investments may lead to positive outcomes in terms of employment generation, value creation and increased food security. However, at the same time may result in unintended outcomes, such as the failure of the 50% buy-back scheme; and the crowding out of subsistence farmers. Keen attention therefore has to be paid to any outcomes that have the capacity to derail investment in LVC. MNCs need to develop mechanisms to understand supply risks as guided by local context and labour rights, as entry points for mitigation.

Case 3: Dutch businesses and floriculture in Kenya²¹

Floriculture is one of Kenya's largest foreign exchange earners after remittances, tea and tourism. Roses constitute 75% of the overall flower production, the rest is mostly summer flowers grown by smallholder farmers. Essentially all cut flowers are grown for export. Floriculture is a labour-intensive industry and, consequently, a sector generating much-needed employment opportunities in the country, often for unskilled female workers.²² The floriculture sector involves a variety of local and international players in activities such as plant development and growing, providing necessary inputs, transport and handling. Through job creation and these substantial backward- and forward-linkages to the local economy, the sector is contributing to inclusive development.

²¹ Full case description, please consult Kazimierczuk, A. H. (2020). 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 (Doctoral dissertation, Leiden University).

²² The sector has accounted for over 65% of the new jobs created between 2010 and 2015 in the Kenyan agricultural sector. Please note that not all of these jobs can be considered decent.

Power dynamics

Despite the potential to contribute to inclusive development, the floriculture sector is at the same time characterised by inequality and power differentials within the value chain. To better understand these power dynamics, it is important to know the structure and roles of key actors in this specific value chain. Within the plant growing sub-sector, three main activities can be distinguished: breeding (developing new varieties), propagation (multiplying by any process of natural reproduction from the parent stock) and growing plants. Growers provide the highest employment opportunities in the entire chain. Due to the nature of their work, breeders and propagators hire less people directly but contribute substantially to indirect employment creation. The Netherlands is home to the majority of companies in the rose breeding²³ and propagation sub-sector, while most flower growing companies are in the hands of Kenyan owners and managers (who often gained their experience working for Dutch flower companies) and prominent Kenyan families. But not each of these actors are equally powerful. In the 1990s, a 'closed network' of international breeding companies have benefitted from very little oversight due to the absence of state control and advancing globalisation. This advantage allowed the companies taking over the key regulatory role in the sector, creating a nearly parallel internal governance structure in the value chain. As a result, breeding companies can be considered the most powerful and profitable actors in the flower value chain, as they are in the position to dictate the prices and quantities of flowers sold each season a non-transparent ('occlusive') way. Their exclusivity also relates to knowledge transfer with regard to breeding techniques; while local Kenyan investors have been able to enter into the cut flower growing business, the (most profitable) young plant segment remains highly exclusive and dominated by the established European breeding companies.

Having a legal environment that grants intellectual property rights over plant materials is vital to encouraging private sector investments in the flower sector domain. The International Union for the Protection of New Varieties of Plants (UPOV) in Geneva is the international body which is granting breeders of new plant varieties intellectual property rights. The UPOV guidelines also regulate how the breeders are compensated for their investments through a system of royalties and licenses. In the 1990's, when the flower industry stagnated, because there were no new varieties introduced in the country, the largely 'foreign'-owned floriculture and horticulture sectors have lobbied for implementation and exacerbation of plant breeders' rights in Kenya. The Government of Kenya officially acceded to the Plant Variety Protection (PVP) scheme in May 1999. This move gave important protection to and encouraged foreign breeding companies to introduce their flower varieties into Kenya. The varieties are, however, developed in the breeding companies' home countries, which means that very little knowledge is transferred to domestic companies in Kenya's. Regardless, signing UPOV, increased liberalisation of Kenya's foreign exchange control regime and streamlining of importation procedures (equipment, planting material and other inputs) which led to the rapid expansion and stabilisation of the sector.

²³ Globally, there are 20 major rose breeding companies, practically all located in Europe.

Main conclusion: The case of Kenyan floriculture teaches us two key lessons. The first lesson is that policies supporting private sector development must understand the power dynamics and structure in a given sector by looking at the process behind sector development, as well as mapping the strategic actors in the value chain. The second lesson is that national and international standards can contribute to both inclusion and exclusion of certain groups and government support to the private sector needs to come with conditions to increase sustainability.

4. Key lessons learned & policy pathways

To ensure the Dutch Africa strategy is guided by sincere and mutually beneficial partnerships, Africa should not just be seen as a market for the export of products, but rather as a fertile ground for collaboration and business success, contributing to more inclusive development. Increased integration of African countries in global value chains has in this regard been marked as an important pathway for growth and development and as such a clear policy direction for the Dutch Africa strategy. In this regard, this paper set out to answer the following questions:

- *To what extent does the focus on value chain development in Africa go beyond a traditional trade approach and what does it mean for inclusive development? And subsequently:*
- *In what way can the Netherlands support the integration of African economies in the global value chains to maximise inclusive development on the continent?*

As the examples presented in this paper show, supporting the creation of meaningful backward and forward linkages, by focusing on both developing Africa's domestic production capacity and the integration of African actors in global value chains, is a promising avenue for promoting inclusive development on the continent. The three case studies of Dutch multinationals in Africa presented above, highlight a number of key lessons learned and policy pathways to implement these insights into policy and practice.

1. Creating meaningful backward and forward linkages

The development of local value chains is an important pathway for development as it can create opportunities for local entrepreneurs to enter the market and thereby stimulate employment generation, value creation and increased food security. Developing the local value chain requires large scale investments in terms of human, financial and material capital borne by the host company and is no guarantee for success and careful consideration of potential market distortion and negative externalities must be applied to maximise a positive impact on development. As the Heineken case shows, the development of the two chains of sorghum initially led to a better quality and higher yield of sorghum and job creation along the chain. However, ultimately, the vertical integration of larger scale sorghum farmers in the industrial value chain led to a crowding out of local subsistence farmers and a loss of direct market opportunities for smallholder farmers, which in turn led to a worsening of labour conditions as smallholder farmers increasingly got engaged as farm hands in the larger farms.

The FrieslandCampina case tells a similar story whereby the use of EU agricultural subsidies and the export of technologically modified milk powder led to a distortion of the African dairy market. Even though Nigeria has five times more cattle heads than the Netherlands, local farmers were unable to compete with multinationals like FrieslandCampina, leaving African dairy farmers in the margins of their own value chains. Aside from breeding disaffection with European and multinational companies, such policies will shrink the market that the European dairy industry aims to exploit. Similar stories can be found in the dairy sector in East-Africa. For example in Kenya, where with the support of Dutch development aid, SNV's Kenya Market-led Dairy Project (KMDP) development programme, promotion of industrial dairy farming and stricter rules and legislation altered the dairy value chain in a way that local farmers could no longer compete with imported milk powder.²⁴

Finally, in the case of the Kenyan floriculture sector, Dutch companies dominate the most profitable breeding and propagation sub-sector, while most of the labour-intensive flower growing companies are in the hands of local businessmen. Breeding companies are the most powerful and profitable actors in the flower value chain, as they dictate the prices and quantities of flowers sold each season. Back in the 1990s, a small group of international breeding companies took advantage of the absence of state control and advancing globalisation, to take over the key regulatory role in the sector, creating a non-transparent and nearly parallel internal governance structure in the value chain. Lack of public finance and support for local commercial R&D and public research in this domain in Kenya exacerbated the entry barrier for Kenyan companies. Consequently, the development of the chain prevented Kenyan farmers from venturing into this most profitable segment of the flower value chain, allowing this 'closed network' of international companies to regulate the sector in an 'occlusive' manner.

To mitigate the risk of creating negative externalities, keen attention has to be paid to potential unintended outcomes that have the capacity to derail investment in local value chains. MNCs need to develop mechanisms to understand raw material supply risks and labour rights risks, as entry points for mitigation. This can be done by promoting cooperation between Dutch multinationals and African farmers either through shared technologies or playing an active role in the value chain of such companies through creating meaningful backward and forward linkages and forming joint ventures.

2. Being mindful of the role of technology and knowledge exchange

Although the transfer of technology should be central to any form of cooperation between Africa and Europe, the reality is that technology may be making such cooperation more difficult. As both the cases of FrieslandCampina and Heineken show, technological advancements may in the short run create opportunities for employment and food security, but can in the long run create barriers that prevent the development of local value chains. In the case of FrieslandCampina the innovation that enabled the creation of Fat Filled Milk Powder hampered the development of the Nigerian dairy chain as it is cheaper to import such FFMP than for FrieslandCampina to buy fresh milk from local dairy farmers.

²⁴ For more examples, see here: <https://viceversaonline.nl/2023/02/03/de-melkwetcontroverse/>

Another extreme example of this can be found in Ethiopia where a Dutch company attempted to patent the local grain teff²⁵, also known as dwarf millet, which is not only the basis for the national staple called 'injera', but also an important part of its cultural heritage. Although in principle, international agreements exclude non-commercial plants from patenting, there is a loophole: the upstream and downstream value chain of a plant, where a patent may be obtained if something new or inventive is developed. As traditional knowledge and cultural heritage from countries of the Global South are seldom available in written form, a grey area arises which multinationals can use to further their business interest, an act activists describe as biopiracy: marketing plants or other biological material from the global south without sharing the profits with the countries of origin.

In the Kenyan flower sector, knowledge transfer of breeding techniques has been nearly non-existent. A 'closed network' of breeding companies develops new varieties of flowers (typically) in their home countries and further exports them to Kenya for trials. This branch of the floriculture sector requires high investments in Research and Development (R&D) and specialised technical knowledge. This technology remains highly protected by international companies (under UPOV conventions) and so far, very little knowledge has been transferred to Kenya's national level. This in consequence led to the situation where all rose varieties available are of foreign origin.

Investing in knowledge exchange and technology transfer by multinational companies to local players is key in addressing the inequality and vulnerability of African farmers in the value chain. Capacity development and skills training initiatives can in this regard be a worthwhile investment to not only grow the capacity of local farmers but develop the whole local value chain.

3. International standards and subsidies as a double edged sword

Adhering to international standards and certification is critical to access and operate in global value chains. As the floriculture case shows, signing the International Union for the Protection of New Varieties of Plants (UPOV) in 1999 strengthened intellectual property protection, which encouraged breeding companies to operate in the country. This led to a major expansion of the flower sector. At the same time, smallholder flower farmers face challenges in implementing international standards and gaining internationally recognised certifications as they are generally designed for medium- and large-scale productions. The signing of UPOV by the Kenyan government forced small-holder farmers to grow non-UPOV varieties, as they could not afford the high costs of royalties. Moreover, 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, leaving the smaller farmers in a less competitive and vulnerable position in the value chain.

Another clear example of where this time international subsidies can have a counterproductive effect is the European subsidies in the dairy industry. As the case of FrieslandCampina shows, EU agricultural subsidies and technologically modified FFMP ultimately shrink the market that the EU dairy industry aims to exploit. Using aid to encourage dairy companies to pursue fair practices and engage Africans in their value chains will help to widen the market for dairy in the country and make the investment of

²⁵ <https://www.bbc.com/travel/article/20190508-did-the-dutch-steal-this-african-food>

EU companies in the sector more sustainable. Although the share of their dairy industry in Africa may decrease, in absolute terms Dutch companies like FrieslandCampina will be better off and have a much more sustainable future on the African continent.

One important policy pathway that European governments can champion in order to create win-win situations will be to ensure that their multinational dairy companies are discouraged from selling products that they do not use in their home countries in Africa. Unless this is done, the economic profits arising from the development and sales of FFMP in Africa will ensure that Africa will continue to be seen as a consumer market rather than a production partner by EU dairy farmers. This strategy will not be beneficial to both Europe and Africa in the long run.

4. Inclusive development beyond corporate social responsibility

As all three cases highlight, integration of African countries into global value chains in Africa is the most promising avenue for change and inclusive development on the continent. Facilitating this, requires not only substantial investment in terms of financial and human capital, but also a mindset change of international companies to go beyond corporate social responsibility towards long-term inclusive investments in the creation of meaningful backward and forward linkages in local value chains. Supporting Dutch businesses with targeted PSD finance instruments can in this regard be utilised to mitigate the initial risks of investments in complex institutional environments and encourage businesses to accept a longer-term investment horizon. This can also be instrumental in curtailing the capital flight of multinationals by encouraging companies to invest their profits in the continent, rather than declare and export these through their active dividend policies and enabling businesses to use their strategic position in supply chains and innovative capacities to contribute to development in a scalable and financially sustainable manner.

5. Conclusion & way forward

As this position paper shows, supporting meaningful backward and forward linkages in the value chain is a necessary precondition for economic transformation and inclusive development in Africa. Supporting businesses to do this in the context of the Africa strategy allows the Netherlands to go beyond a traditional trade approach and maximise the potential synergy between aid and trade on the continent. Rather than a market for export and exploitation, Africa becomes a partner which breeds a fertile ground for collaboration, development and business success. Integrating an inclusive development perspective in the Dutch Africa strategy means moving away from business as usual, towards an innovative and sustainable vision for the future of Dutch Africa cooperation.

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