Central Bank of Kenya

Monetary Policy Committee
Flower Farms Survey

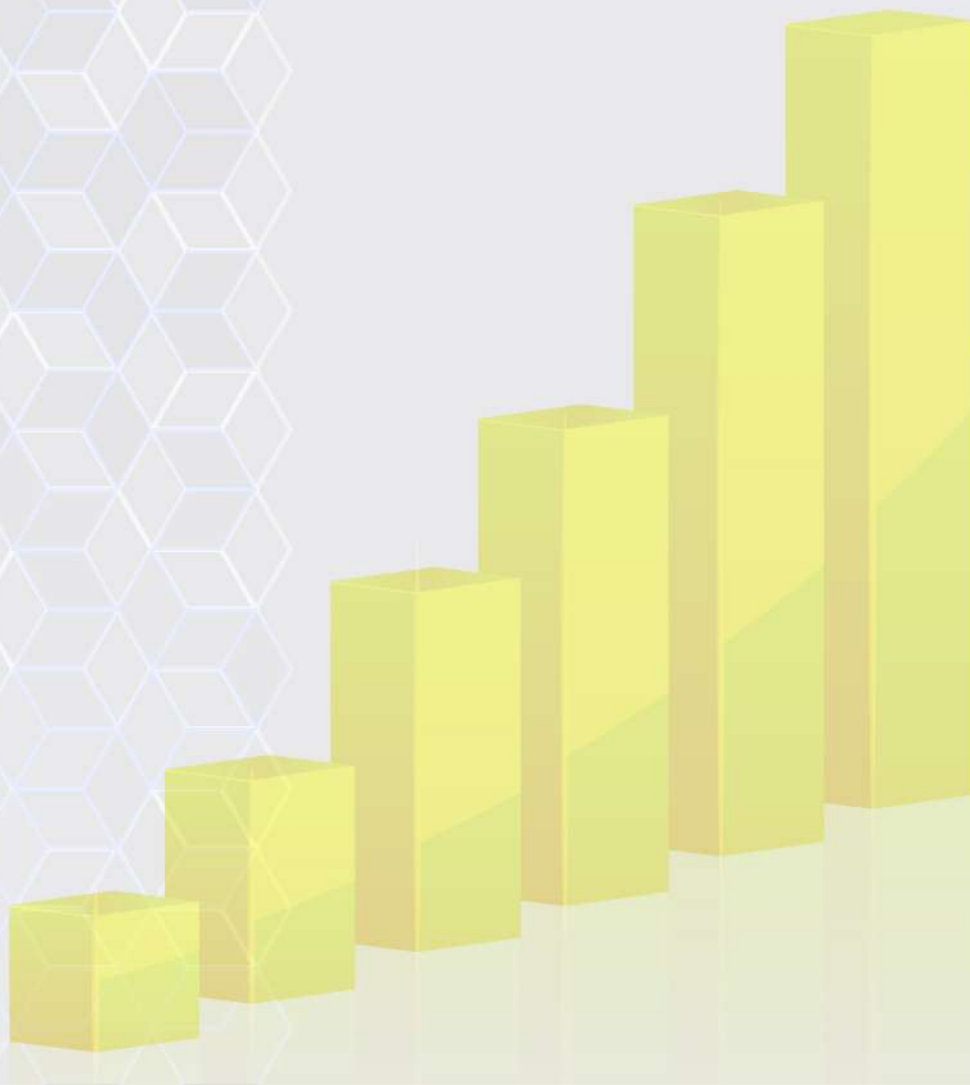November 2020

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1. BACKGROUND

The Central Bank of Kenya (CBK) conducted a Survey on November 10 and 12, 2020 to assess the extent of recovery in the flower sector, particularly with the reopening of the economy and continued implementation of the Government measures to mitigate the adverse impact of COVID-19.

The flower sector in Kenya is estimated to employ over 500,000 people, including over 100,000 engaged directly in flower farms as employees, and impacts over 2 million livelihoods. It is against this backdrop that the CBK undertook this survey to assess the extent of impact of the pandemic and the pace of recovery of the sector, following the easing of COVID-19 restrictions, resumption of international passenger flights in August, and reopening of global markets.

The main areas of focus of the Survey were: the status of operations of flower farms; their levels of employment before and during the COVID-19 pandemic shock; recovery of the sector with the re-opening of the economy and Government measures in place; and an assessment of the implications of a second wave of the pandemic on the sector through perceptions of future orders for flowers.

The Survey was a supplement to the regular Monetary Policy Committee (MPC) Market Perceptions Survey. The findings provided important input and information for the MPC in its meeting of November 2020. The Survey also captured general sentiments by players in the flower sector. This report provides a summary of the findings of the Survey.

2. SAMPLE AND METHODOLOGY

The Survey covered major flower farms in Naivasha and Nakuru areas. It was administered to chief executives and senior managers of a sample of 15 flower farms in Naivasha (12 farms) and Nakuru (3 farms) areas. The respondents were people with good knowledge of the activities in the sector. Direct interviews were conducted by CBK staff using a structured questionnaire. The responses were aggregated and analyzed using frequencies, percentages and simple averages where appropriate.

3. KEY HIGHLIGHTS OF THE SURVEY

The Key takeaways from the Survey of flower farms in November 2020 included:
- All responding flower farms indicated that they have been operating since August, compared to only 56 percent in April and May when the farms closed or scaled back on operations due to reduced demand from export markets and constrained cargo space options.
- Employment in flower farms continues to recover to pre-COVID levels. It averaged 87 percent and 82 percent in November and September, respectively, from 69 percent in April, relative to the February 2020 levels.
- Production and export levels of flowers have improved to an average of 88 percent and 83 percent, respectively, of pre-COVID-19 levels (February 2020).
- Export orders for flowers are strong despite the uncertainty on the second wave of COVID-19. Average orders were over 80 percent of the normal (pre-COVID-19) levels in the next four months (December 2020 to March 2021). Some farms are concerned about possible cancellation of orders in case of stringent lockdowns due to the second wave of the COVID-19 pandemic.

4. FLOWER FARMS IN OPERATION

Flower farm respondents were asked whether their enterprises were operating in each of the months from January to November 2020. All responding flower farms indicated that they have been operating since August, compared to only 56 percent in April and May, when the farms closed or scaled down their operations due to reduced demand from export markets and constrained cargo space options **(Figure 1).**

Respondents indicated that their operations were supported by the reopening of key export markets and improved cargo space particularly from August. Furthermore, the farms that were operating in April and May, indicated that they were supported by the Government measures that allowed cargo flights, and direct sales to outlets/supermarkets in Europe and were not reliant on sales through the auction markets. In March-July periods, some farms indicated that they diversified operations for example by uprooting crops and using them for manure, while some produced food (such as cabbages) for staff.

Figure 1: Flower farms in operation (percent of farms that were surveyed)
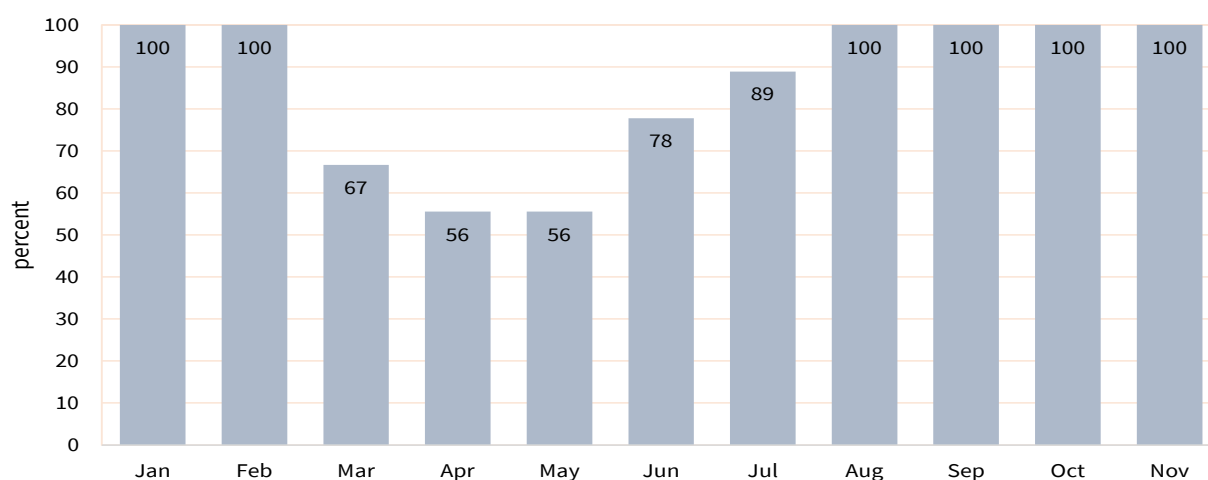
5. EMPLOYMENT IN FLOWER FARMS

The Survey collected data on changes in employment in the flower farms sector. In particular, respondents were requested to indicate the number of active employees engaged by the farms between January and November 2020. Relative to the employment numbers by the farms in February, the Survey findings show that employment continues to recover to pre-COVID (February) levels, averaging 87 percent in November compared to 82 percent in September, and 69 percent in April **(Figure 2).** Respondents indicated that during the peak of COVID-19 in April most employees were either put on unpaid leave or proceeded on normal leave, and are now working in shifts in adherence to the Ministry of Health protocols for containing the spread of COVID-19.

**Figure 2: Levels of employment (percent of pre-COVID-19 levels)**
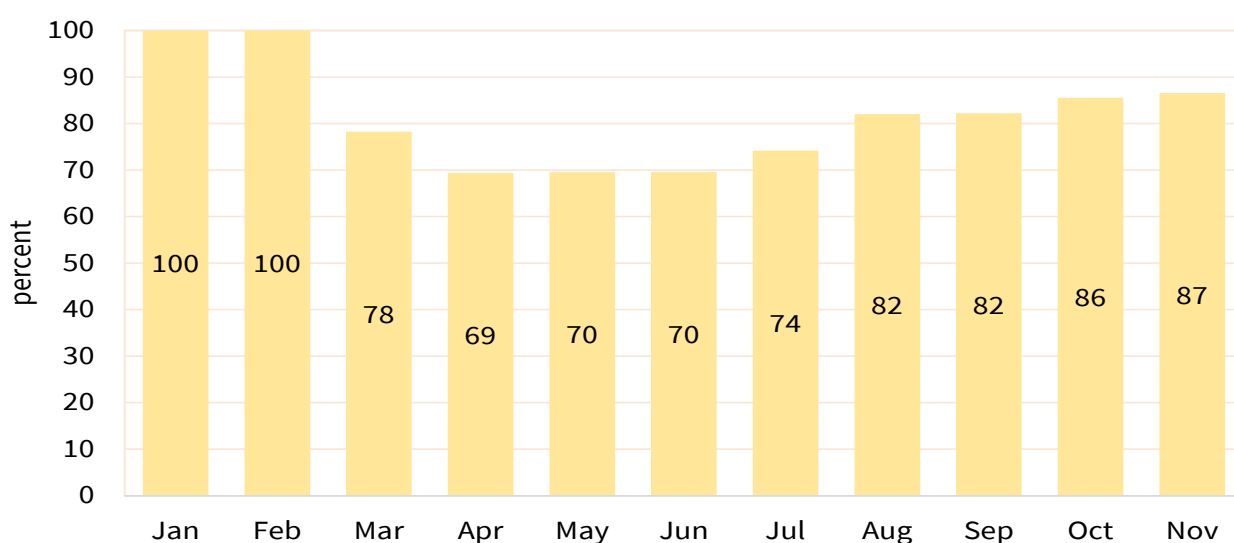
6.   LEVELS OF PRODUCTION AND EXPORTS BY FLOWER FARMS

Flower farms were asked to indicate their levels of operation in terms of production and exports relative to their pre-COVID-19 levels (February 2020 level). Responding flower farms reported that production levels were an average of 88 percent of pre-COVID-19 levels as at November, compared to an average of 47 percent in April **(Figure 3).** The responding farms indicated that production levels plummeted in April, following uprooting of crops, unfavourable weather conditions (that included hailstones), infestation of pests during the period and lower exports due to relatively higher cargo space costs occasioned by limited cargo space on account of the effects of the COVID-19 pandemic in key markets.

Figure 3: Production relative to pre- COVID-19 level (percent)
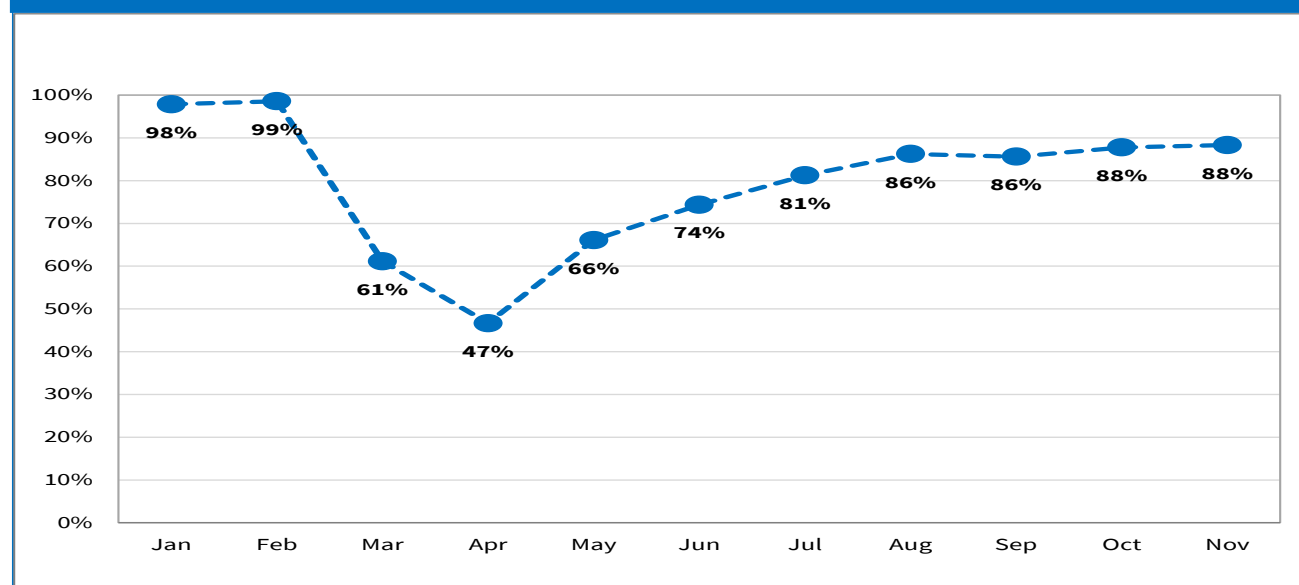
Similarly, exports have recovered to 83 percent of pre-COVID-19 levels, from 53 percent in April following low demand due to lockdowns in Europe, and unavailability of cargo space and high cargo space costs **(Figure 4).**

Responding flower firms also indicated that their export orders for flowers are strong despite the uncertainty on the second wave of COVID-19 and consequent lockdowns. In particular, the average orders confirmed as at November, for the next four months were over 80 percent of the normal (pre-COVID-19) levels **(Figure 5).**

The strong orders were attributed to sentiments that the existing lockdown measures were less stringent compared to April/May when cargo space services were depressed. However, 33 percent of flower farms surveyed were concerned about possible cancellation of orders in case of more stringent lockdowns due to the second wave of the COVID-19 pandemic.

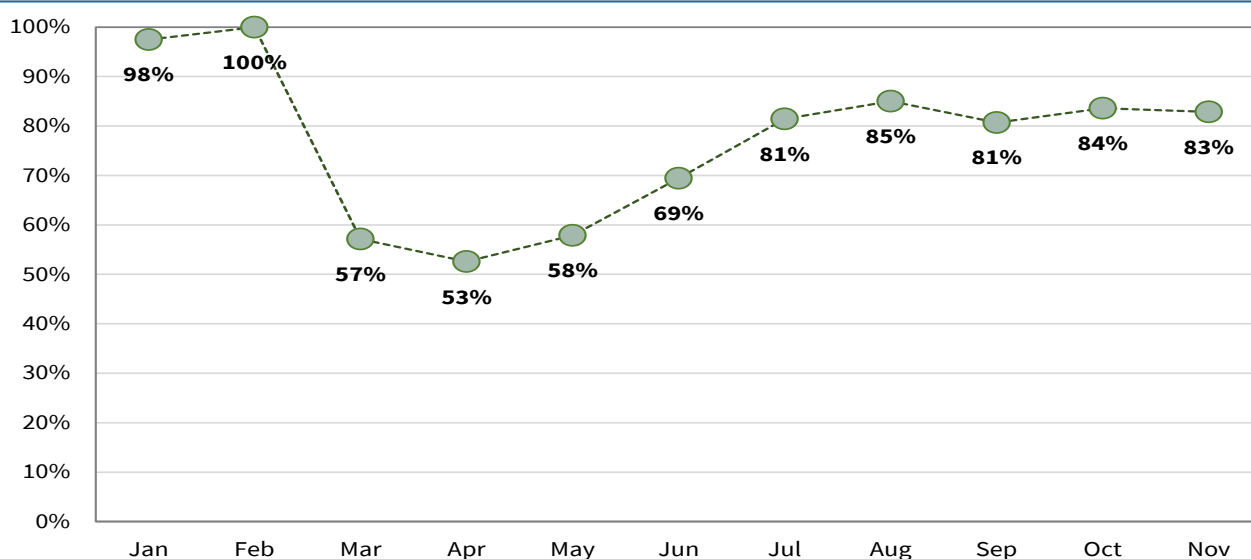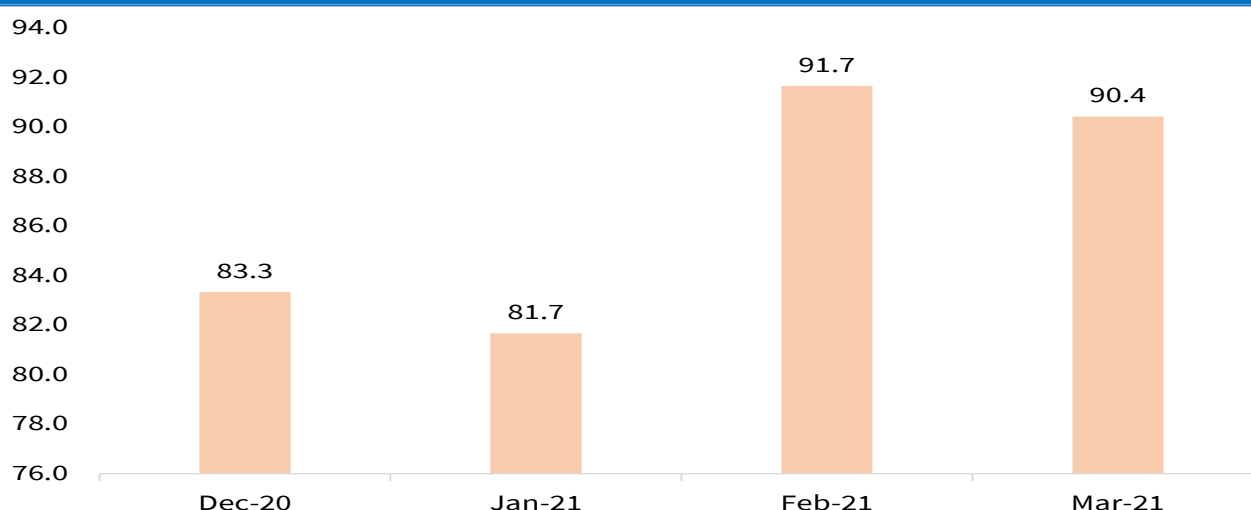**Figure 4: Exports relative to pre- COVID-19 levels (percent)**

Figure 5: Export orders for the next four months (percent of pre- COVID-19 levels)

7.   GENERAL COMMENTS BY FLOWER FARMS

Flower farms gave the following general comments with regard to their operations during the COVID-19 pandemic period:
- Cargo space availability and cost is a major factor for sales, even when orders are available.
- Government could consider subsidizing cargo space services and production inputs; reduce Value Added Tax (VAT) and accelerate tax refunds; and designate flower farms as a Special Economic Zone to boost the sector's competitiveness.

- The Government in collaboration with the Kenya Flower Council (KFC) have been helpful in raising awareness about COVID-19 in the sector through staff training; provision of car stickers to facilitate transport; and assisting with the processing of permits and exports.
- Some flower farms have increased investment in upgrading their production and market monitoring systems in order to produce more to meet increasing demand.

8. CONCLUSION

The Survey of flower farms conducted by CBK on November 10 to 12, shows recovery of activity in the sector from the COVID-19 disruptions in April and May.

All responding flower farms have been operating since August, compared to only 56 percent in April and May when farms closed or scaled back on operations due to reduced demand from export markets and constrained cargo space options. Employment in the farms continues to recover to pre-COVID levels, averaging 87 percent and 82 percent in November and September, respectively, from 69 percent in April, relative to the February 2020 levels.

Production and export levels of flowers have also recovered to an average of 88 percent and 83 percent respectively, of pre-COVID-19 levels (February 2020).

Export orders for flowers are strong, at over 80 percent of the normal (pre-COVID-19) levels for the next four months, despite the uncertainty on the second wave of COVID-19 and possible consequent lockdowns in leading markets. However, some farms were concerned about possible cancellations of orders in case of stringent lockdowns due to the second wave of the COVID-19 pandemic.

For the flower farms, cargo space availability and cost is a major factor for sales, even when orders are available. In this regard, the responding flower farms proposed that the Government could consider measures to support the sector, such as subsidizing cargo space services and production inputs; reduce Value Added Tax (VAT) and accelerate tax refunds; and designate flower farms a Special Economic Zone to boost the sector's competitiveness.