



Central Bank of Kenya

Monetary Policy Committee Flower Farms Survey

January 2021

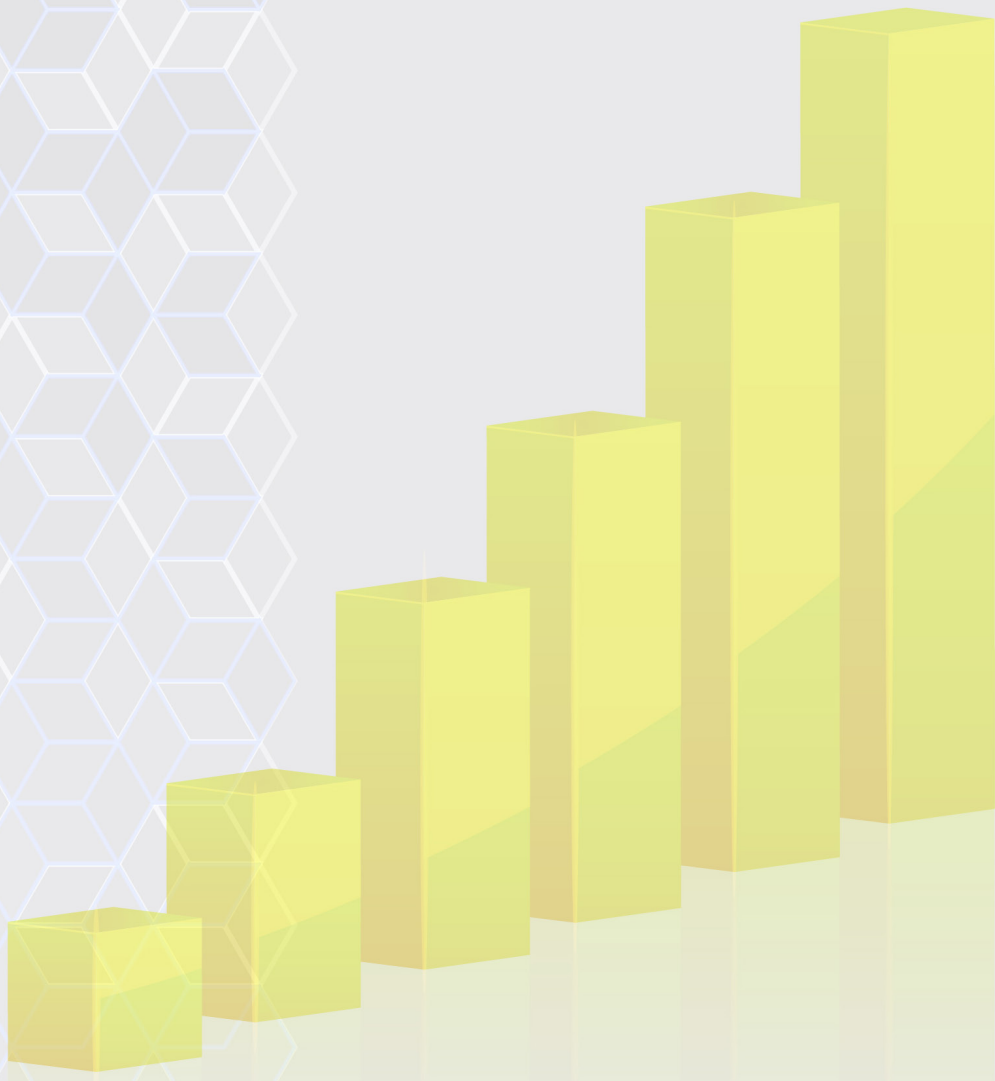


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1. BACKGROUND

The Central Bank of Kenya (CBK) conducted a survey from January 13-15, 2021 to assess the extent of recovery in the flower sector, particularly after the resurgence of the second wave of COVID-19 globally and discovery of new variants of the virus in some countries. This was a follow-up to the November 2020 Survey that was carried out after the reopening of the economies and the continued implementation of the Government measures to mitigate the adverse impact of the pandemic.

In Kenya, the flower sector 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 indirectly. The impact of the pandemic in flower markets has direct effect on the performance of this sector in Kenya. It is against this backdrop that the CBK undertook a survey to assess the extent of impact of the pandemic and the pace of recovery of the sector, following the resurgence of COVID-19 infections, discovery of new variants of the virus and the subsequent imposition of containment measures.

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; 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 January 2021. In addition, the Survey captured general sentiments by players in the flowers 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 8 flower farms in Naivasha and 2 in Nakuru. The respondents were people with good knowledge of the activities and performance in the sector. The sampled flower farms included those involved in direct sales, contract sales and breeders of flower varieties for other farms. 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 January 2021 included:

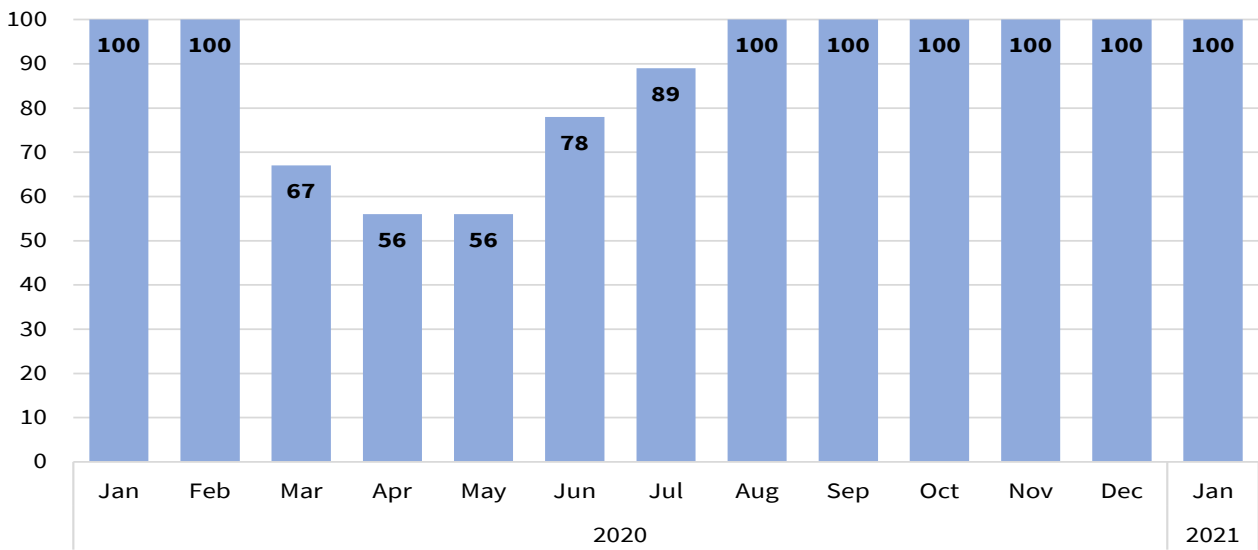
- All responding flower farms indicated that they have been operating since August, compared to only 56 percent in April and May when the farms closed or scaled back operations due to reduced demand from export markets and constrained cargo space.
- Employment in flower farms has recovered and exceeded the pre-COVID levels. It averaged 113 percent relative to the February 2020 level in January 2021 up from 87 percent and 69 percent in November and April, respectively, relative to the February 2020 levels.
- Production and export levels of flowers have improved to an average of 90 percent and 95 percent, respectively, of pre-COVID-19 levels (February 2020).
- Export orders for flowers remain strong despite the uncertainty surrounding the second wave of COVID-19 infections and emergence of new variants of the virus. Average orders are about 97 percent of the normal (pre-COVID-19) levels in the next four months (February to May 2021). However, 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 2020 to January 2021. All responding flower farms indicated that they have been operating since August, compared to only 56 percent in April and May, when the farms either closed or scaled down their operations due to reduced demand from export markets and constrained cargo space (**Figure 1**).

Respondents indicated that their operations have been 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 period, 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: Proportion of flower farms in operation (percent of total)



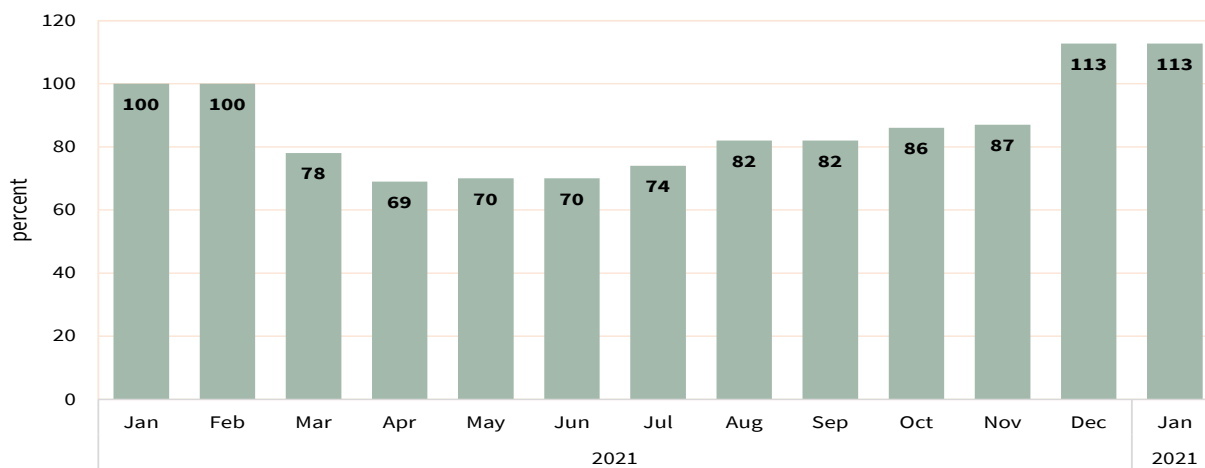
5. EMPLOYMENT IN FLOWER FARMS

The Survey collected data on changes in employment in the flower farms. In particular, respondents were requested to indicate the number of active employees engaged by the farms between July 2020 and January 2021. Relative to the employment numbers by the farms in February, the Survey findings show that employment has recovered and exceeded the pre-COVID (February) levels, averaging 113 percent in December 2020 and January 2021, compared to 87 percent in November 2020, 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. All the workers have resumed work in strict adherence to the Ministry of Health protocols for containing the spread of COVID-19.

In December and January, the respondent farms confirmed to have increased their employees in readiness for the peak season that runs from January to May.

Figure 2: Levels of employment (percent of pre-COVID-19 levels)

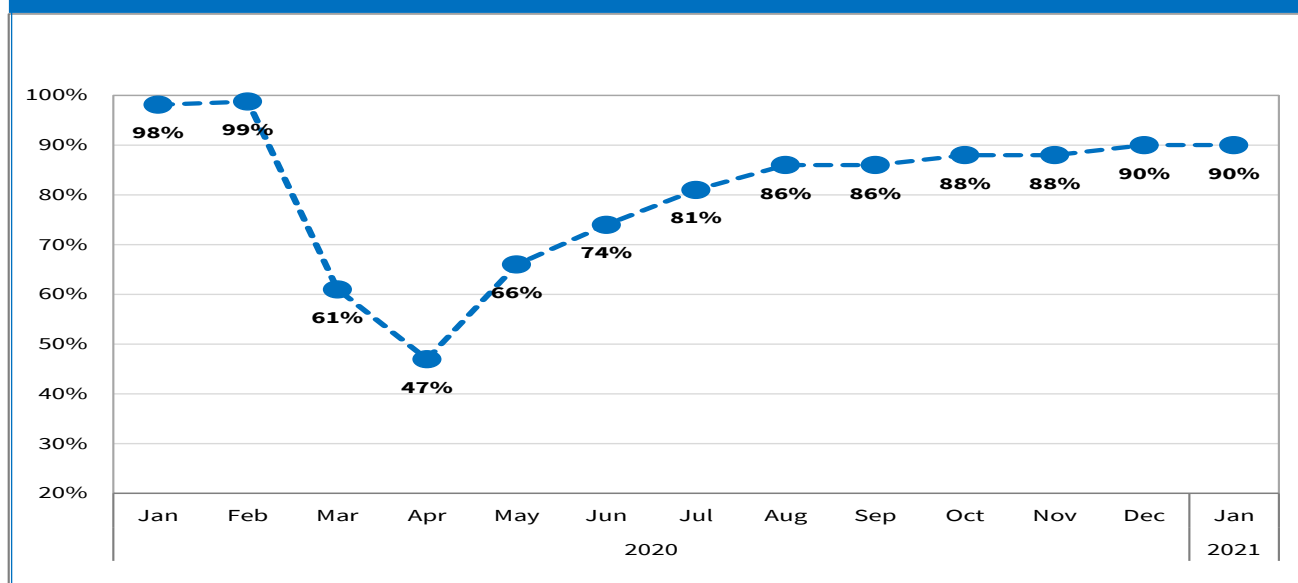


6. LEVELS OF PRODUCTION AND EXPORTS BY FLOWER FARMS

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). Responding flower farms reported that production levels were on average 90 percent of pre-COVID-19 levels as at January 2021, compared to an average of 47 percent in April 2020 (**Figure 3**).

The responding farms indicated that production levels plummeted in April, due to unfavourable weather conditions (that included hailstones), infestation of pests during the period and lower exports due to relatively higher freight 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)



However, following the re-opening of the economies, production has since improved on account of increased cargo space after resumption of flights to key export markets. In addition, the good weather has supported production of flowers especially those under the open space system.

Similarly, exports have recovered to 95 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**). However, sales in January 2021 were one percentage point lower than in December 2020. This drop was attributed to the imposition of containment measures in Europe and UK following the rise in COVID-19 cases resulting in reduced demand for flowers in early January 2021.

Responding flower firms also indicated that their export orders for flowers were strong despite the uncertainty on the second wave of COVID-19, discovery of new variants of the virus and possibility of consequent lock-downs in key export markets and thereby possible cancellation of orders. In particular, the average expected orders for the next four months were about 97 percent of the normal (pre- COVID-19) levels (**Figure 5**).

The respondents noted that this was the peak season for the sector especially due to the upcoming Valentine's day, Women's day and Mothers' Day. In addition, the ongoing rollout of COVID-19 vaccination especially in the developed countries continues to give hope to the sector.

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

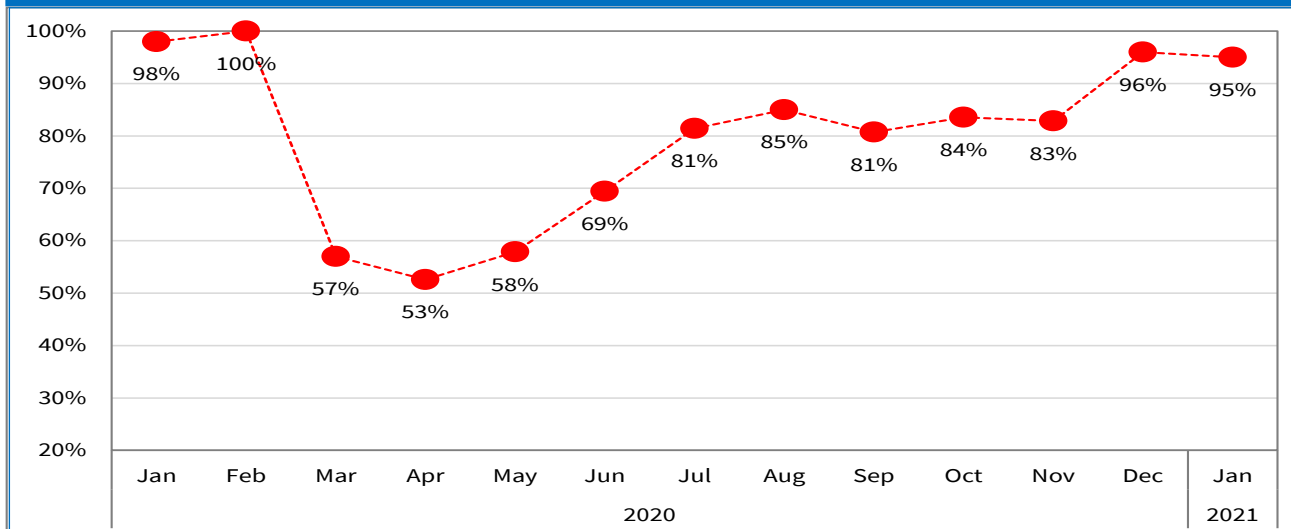
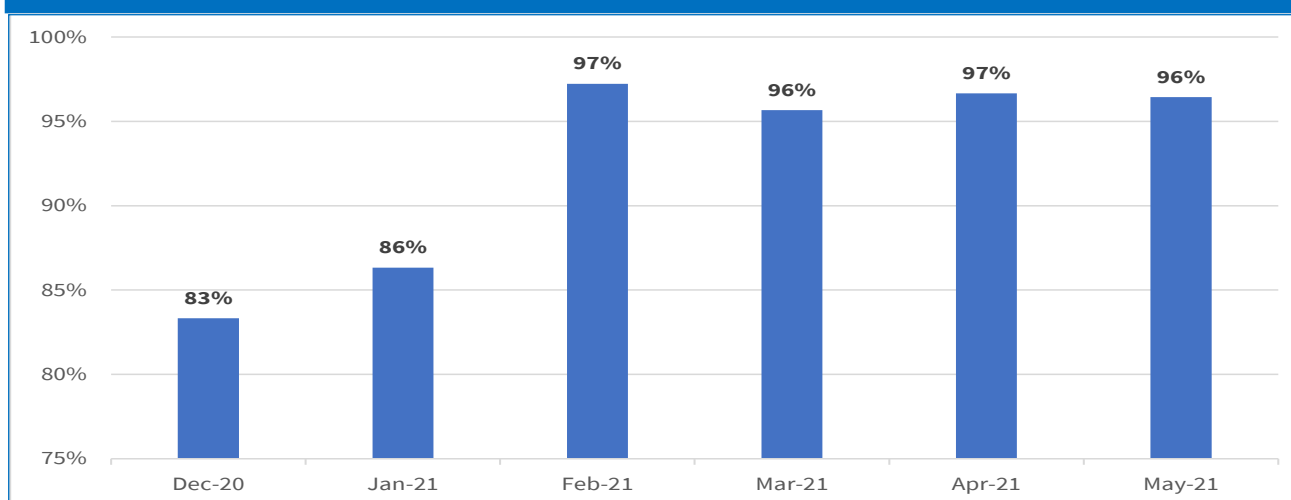


Figure 5: Export orders for the next four months (percent of pre-COVID-19 levels)



7. GENERAL COMMENTS BY FLOWER FARMS

Flower farms gave the following general comments with regard to their operations during the COVID-19 pandemic period:

- Government could consider subsidising 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 respondents appreciated the Government’s quick payment of the tax refunds during the pandemic noting that it helped them in cash flow management.
- Kenya Flower Council (KFC) has been helpful in providing the necessary information, raising awareness about COVID-19 through staff training; provision of car stickers; and assisting with the processing of permits and exports.
- The concerns of higher cost of freights have increased thereby increasing their operational costs.
- Urged the government to merge various regulatory bodies (e.g. NEMA, KEPHIS, HCD) that perform almost similar functions but result in increased cost to the farms through inspection, annual, membership and licenses fees.
- To reduce numerous taxes and other charges levied by both county and national governments.

8. CONCLUSION

The follow-up Survey of flower farms conducted by CBK from January 13 to 15 2021, shows continued 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 operations due to reduced demand from export markets and constrained cargo space. Employment in the farms has recovered and exceeded the pre-COVID levels, averaging 113 percent and 87 percent in January 2021 and November 2020, 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 90 percent and 95 percent, respectively, of pre-COVID-19 levels. Expected export orders for flowers are strong, at about 97 percent of the normal (pre-COVID-19) levels for the next four months, despite the concerns over the second wave of COVID-19 and discovery of new variants of

the virus that may result in possible lockdowns in leading markets with possible cancellation of orders.

While the cargo space has increased, the freight costs remain high for the flower farms. 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.

Responding flower farms indicated that 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.

In order to reduce costs to the sector, the responding farms urged the government to merge various regulatory bodies and reduce taxes and other charges levied by both national and county governments.



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