



Central Bank of Kenya

Monetary Policy Committee Flower Farms Survey

March 2021

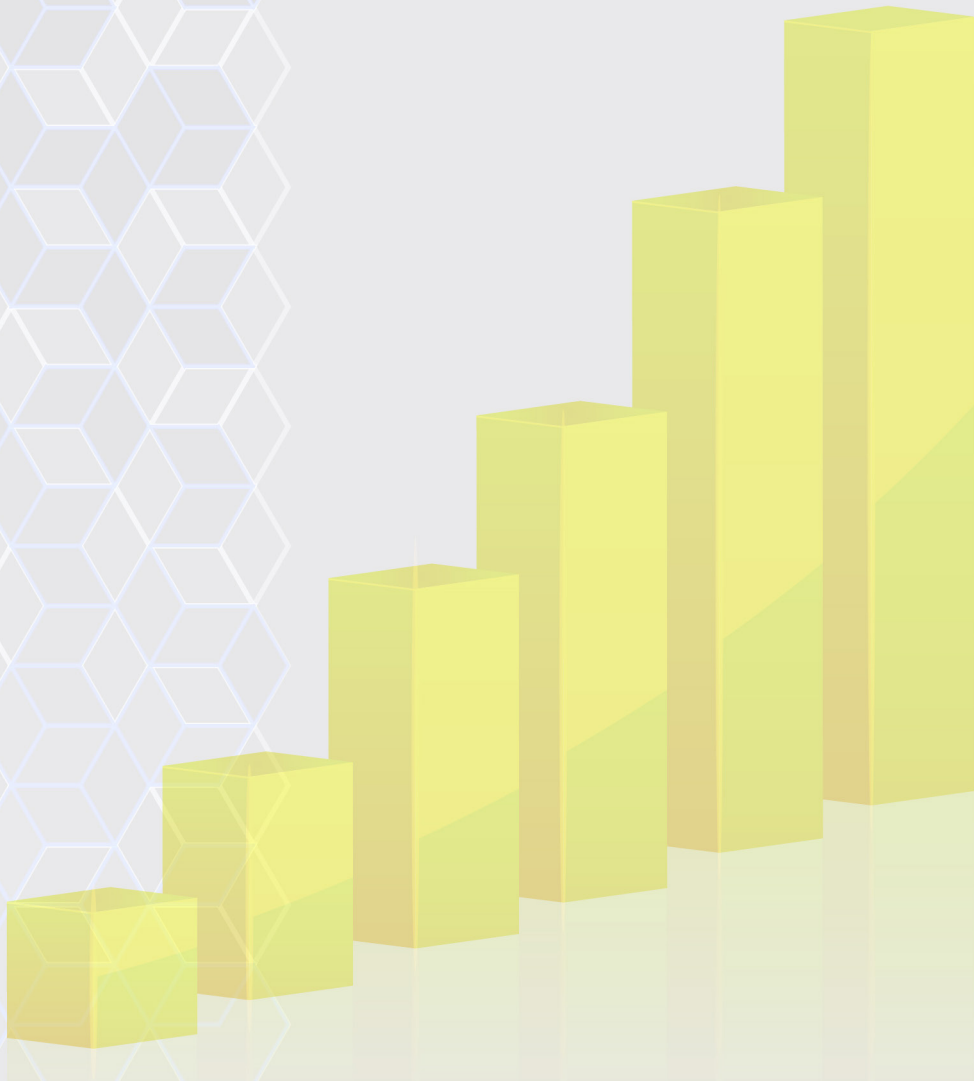


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1. BACKGROUND

The Central Bank of Kenya (CBK) conducted a survey on March 15-17, 2021 to assess the extent of recovery in the flower sector, particularly after the resurgence of the third wave of COVID-19 globally and discovery of new variants of the virus in some countries. The survey was a follow-up to the January survey, that covered the impact of the second wave of the pandemic and continued reopening of economies.

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 indirectly. The impact of the pandemic in key international flower markets has a direct impact on the performance of this sector in Kenya. It is against this backdrop that the CBK undertook this survey to assess the extent of impact of the pandemic globally and the pace of recovery of the sector, following the second wave of COVID-19 infections, discovery of 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 third wave of the pandemic on the sector based on the future orders for flowers. In addition, the Survey captures general sentiments by players in the flower sector.

The Survey was a supplement to the regular Monetary Policy Committee (MPC) Market Perceptions Survey, the survey of hotels and the newly introduced CEOs survey. The findings provided important input and information for the MPC in its meeting of March 2021. 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 area. It was administered to Chief Executives and Senior Managers of a sample of 9 flower farms in Naivasha and 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 flower 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 March 2021 included:

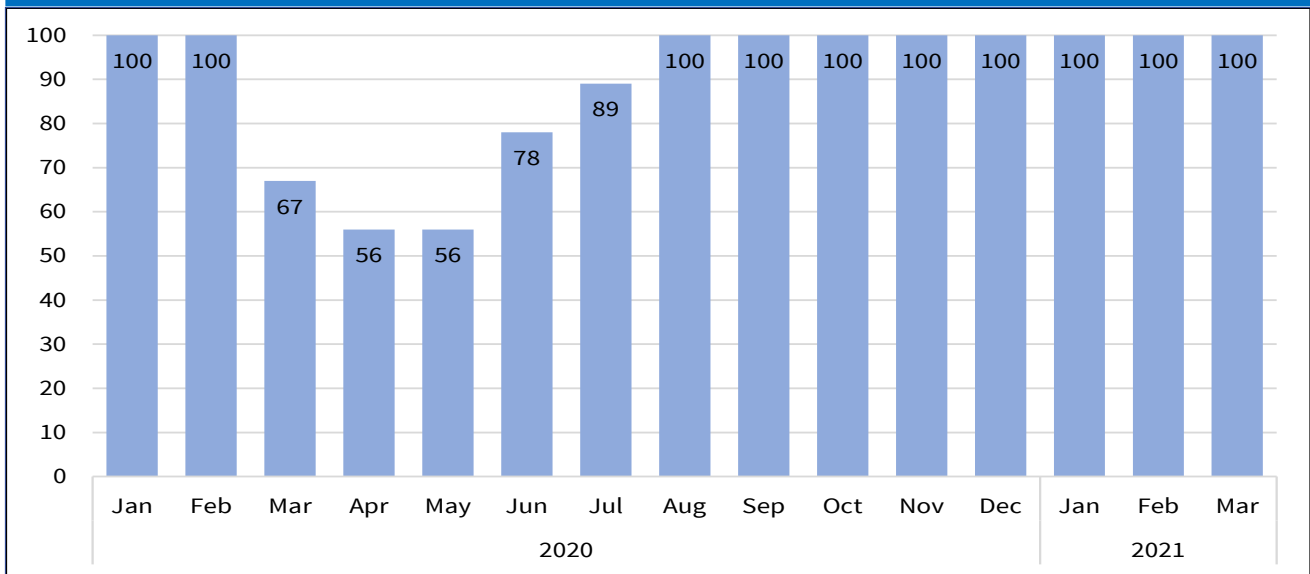
- All responding flower farms indicated that they have been operating since August, compared to only 56 percent in April and May, when the farms closed or scaled back on operations due to reduced demand from export markets and constrained cargo space;
- Employment in flower farms has recovered and exceeded the pre-COVID-19 levels. It averaged 120 percent in March 2021 up from 113 percent and 97 percent in January and November, respectively, relative to the February 2020 levels;
- Production and export levels of flowers have improved to an average of 93 percent and 97 percent, respectively, of pre-COVID-19 levels (February 2020); and
- Export orders for flowers remain strong despite the uncertainty surrounding the third wave of COVID-19 infections and discovery of variants of the virus. Average orders are about 97 percent of the normal (pre-COVID-19) levels in the next four months (April to July 2021). However, some farms were concerned about possible cancellation of orders in case of stringent lockdowns due to the third 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 March 2021. All responding flower farms indicated that they have been operating since August, compared to only 56 percent in April and May 2020 when the farms 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. The farms are currently on high season and they continue to supply the international markets. Furthermore, the farms that were operating in April and May 2020 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 respondents)



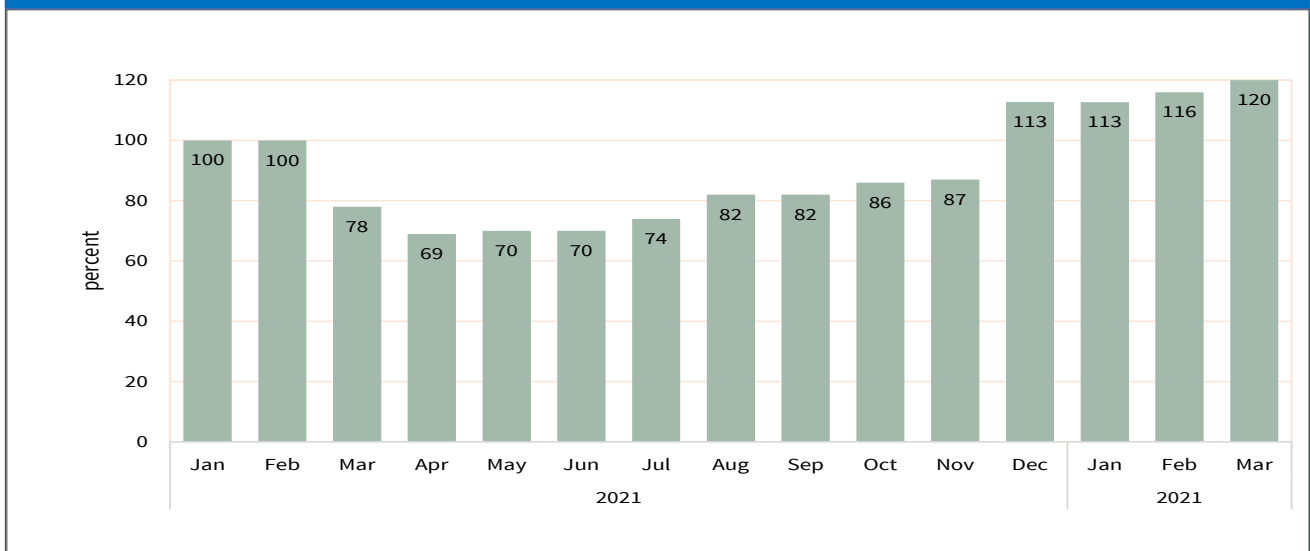
5. EMPLOYMENT IN FLOWER FARMS

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 July 2020 and March 2021. Relative to the employment numbers by the farms in February 2020, the Survey findings show that employment has recovered and exceeded pre-COVID levels, averaging 120 percent in March 2021 compared to 113 percent in January 2021 (relative to the February 2020 levels) (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 in

adherence to the Ministry of Health protocols for containing the spread of COVID-19.

As the economies reopened, farms started recalling their workers in line with demand for the flowers internationally. Between January and March 2021, farms increased their workforce in line with the rising demand. They also increased the acreage under flowers. In addition, farms have increased their workforce to support replanting of flowers that were due for replacement.

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

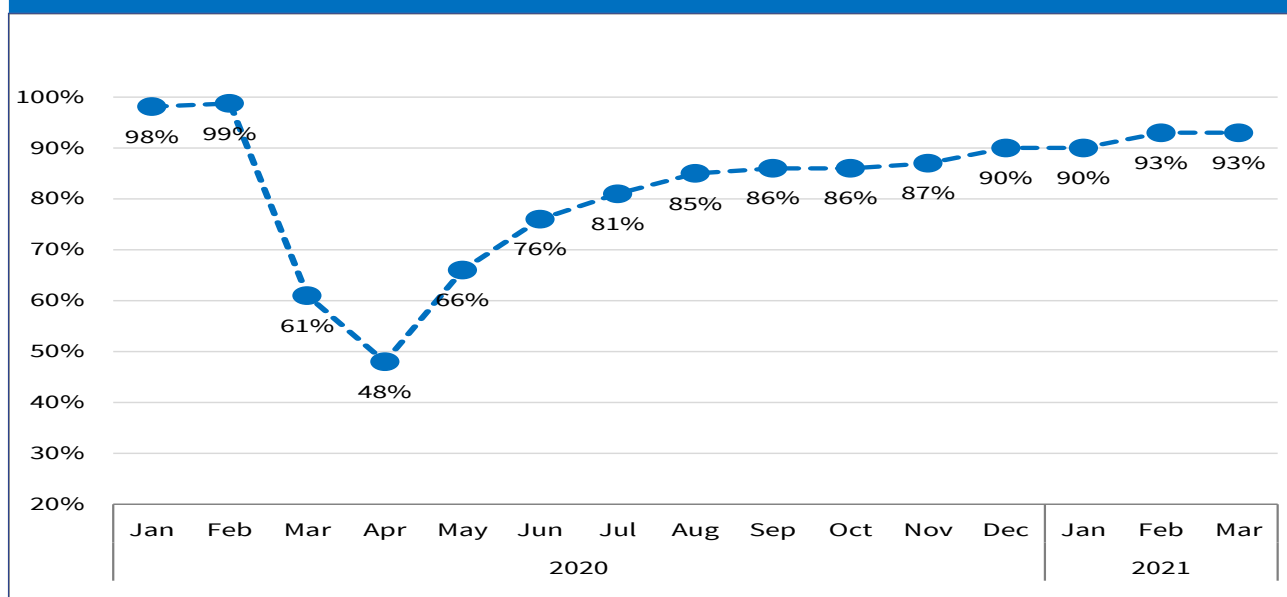


6. LEVELS OF PRODUCTION AND EXPORTS BY FLOWER FARMS

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 93 percent of pre-COVID-19 levels as at March 2021, compared to an average of 48 percent in April 2020 (**Figure 3**). The responding farms indicated that production levels had

plummeted in April, 2020 due to unfavorable 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. However, following the reopening of the economies, production has since improved on account of increased demand in the

Figure 3: Production relative to pre- COVID-19 level (percent)



international market and availability of cargo space after resumption of international flights to key export markets.

Similarly, exports of flowers have recovered to 97 percent of pre-COVID-19 levels, from 53 percent in April following low demand due to lockdowns in Europe, unavailability of cargo space and high cargo space costs (**Figure 4**). However, foreign sales have increased since January 2021 on account of increased demand for flowers in the international market, especially during the valentine day celebration. Some farms indicated that they had received orders above their contract volume which they could not meet.

Responding flower farms also indicated that their export orders were strong despite the uncertainty on the third wave of COVID-19, discovery of variants of

the virus and possibility of consequent lockdowns in key export markets and thereby possible cancellation of orders, especially for the farms that sell their flowers through the Dutch Auction. In particular, the average orders for the next four months (April- July 2021) were about 97 percent of the normal (pre-COVID-19) levels (**Figure 5**). The flower farms under contract sales expect to realize 100 percent of their contract volume in the next four months.

The respondents noted that this is the peak season for the sector. Specifically, they confirmed to have done good business during the valentine's and women's days and expect to do well during mothers' day. In addition, the rollout of COVID-19 vaccination, especially in the developed countries continue to give hope to the sector.

Figure 4: Exports of flowers relative to pre- COVID-19 Levels (Percent)

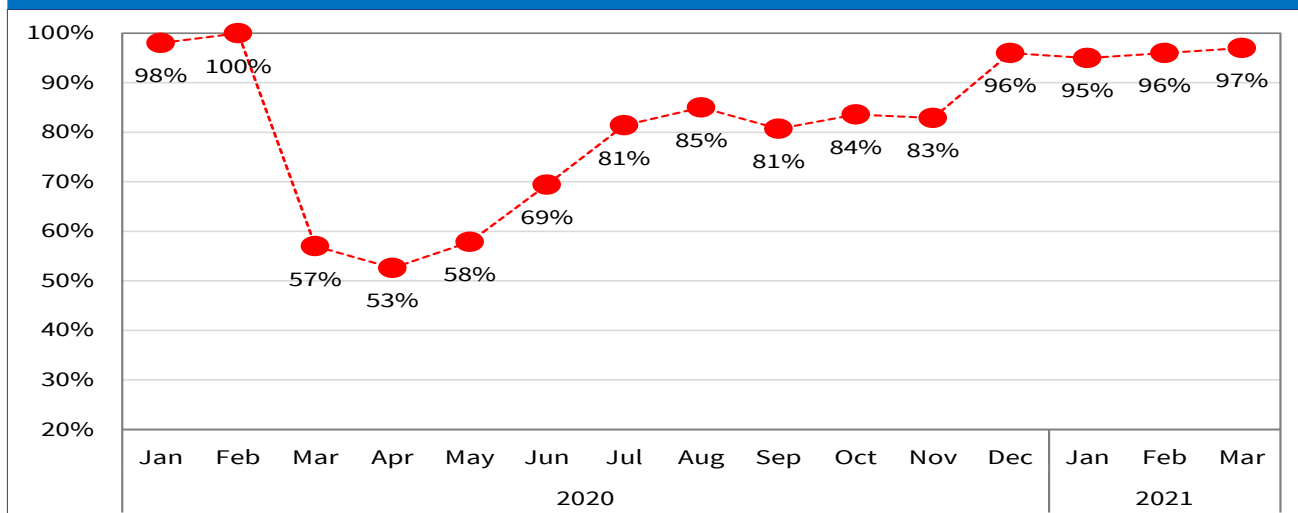
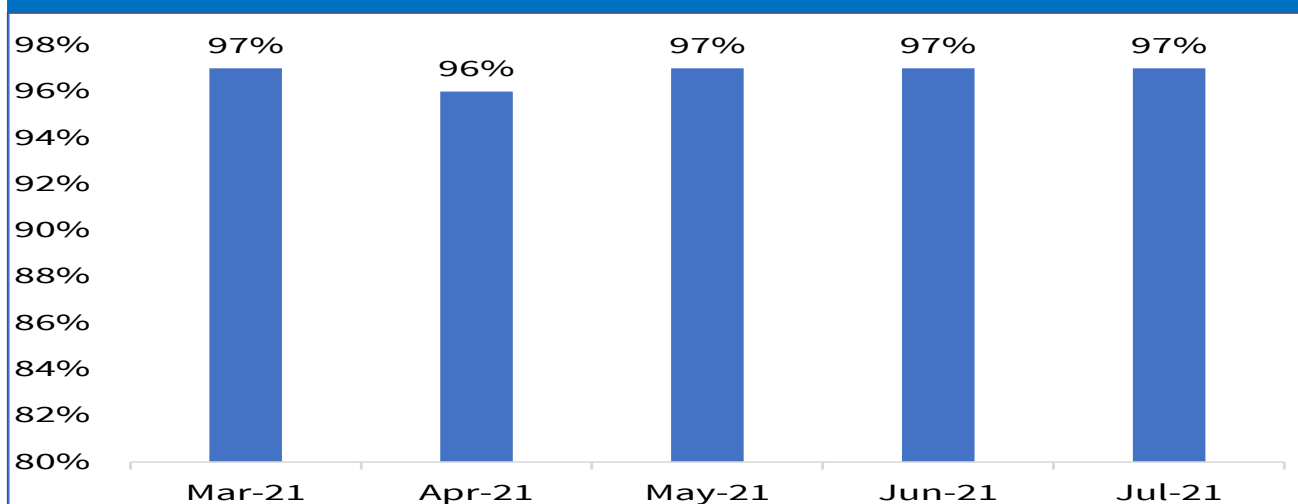


Figure 5: Export orders for the next four months (percent of pre-COVID-19 levels)



7. GENERAL COMMENTS BY FLOWER FARMS

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

- The flower farms continue to be constrained by the cargo space. This arose from the restrictions of the passenger flights, which they were previously using to transport flowers to their export markets. In addition, the cargo flights are few and usually involve connection through other countries. This has affected their flowers in addition to the high costs involved. This has also impacted on their costs of imported inputs including fertilizer and chemicals.
- The respondents appreciated the role of the Government for quick payment of the tax refunds during the pandemic noting that it helped them in cash flow management.
- Respondents also observed that the 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 responding farms were concerned about the rising operational costs arising from the provision of protection against COVID-19 including sanitizers and hiring of additional buses to transport their workers in line with the social distancing requirements.
- Respondents urged the Government to merge various regulatory bodies that perform almost similar functions but result in increased cost to the farms through inspection, annual membership, and licenses fees.

8. CONCLUSIONS

The follow-up Survey of flower farms conducted by CBK from March 15-17, 2021 shows a further recovery of activity in the sector from the COVID-19 disruptions in April and May 2020.

The survey shows that all responding flower farms have been operating since August 2020, 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.

Employment in the farms has recovered and exceeded the pre-COVID levels, averaging 120 percent and 113 percent in March and January, 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 93 percent and 97 percent, respectively, of pre-COVID-19 levels (February 2020) implying continued recovery of the sector.

Export orders for flowers are strong, averaging about 97 percent of the normal (pre-COVID-19) levels for the next four months with concerns remaining over the third wave of COVID-19, discovery of variants of the virus and possibility of lockdowns in key export markets with consequent cancellation of orders. However, the continued vaccinations against COVID-19 globally, continue to give hope for full recovery of the sector.

Cargo space remains a major constraint resulting in high freight costs. This has impact on the cost of their inputs such as fertilizer and chemicals. While conversion of one passenger plane to cargo plane by Kenya Airways, was a step in the right direction, the capacity challenge still remains.

In order to reduce costs to the sector, the respondent flower 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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