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Employment Creation in Agriculture & Agro-Processing Sector in Kenya in the Context of Inclusive Growth: Political Economy & Settlement Analysis

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EMPLOYMENT CREATION IN AGRICULTURE AND AGRO-PROCESSING SECTOR IN KENYA IN THE CONTEXT OF INCLUSIVE GROWTH: POLITICAL ECONOMY AND SETTLEMENT ANALYSIS

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LIST OF ABBREVIATIONS

AfDB	African Development Bank
AFFA	Agriculture, Fisheries and Food Authority
ASDS	Agricultural Sector Development Strategy
COMESA	Common Market for East and Southern Africa
ERC	Estimated Recoverable Crystals in Sugar
ERS	Economic Recovery Strategy for Wealth and Employment Creation
FGD	Focus Group Discussion
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoK	Government of Kenya
HCDA	Horticultural Crops Development Authority
ICT	Information and Communication Technology
IDS	Institute for Development Studies
ILFS	Integrated Labour Force Survey
ILO	International Labour Organization
KFC	Kenya Flower Council
KHRC	Kenya Human Rights Commission
KIHBS	Kenya Integrated Household Budget Survey
KNBS	Kenya National Bureau of Statistics
KSD	Kenya Sugar Directorate (formerly Kenya Sugar Board)
MDGs	Millennium Development Goals
MNC	Multinational Corporations
NGO	Non – Governmental Organization
PASGR	Partnership for African Social and Governance Research
SME	Small and Medium Enterprises
UK	United Kingdom
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
USA	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax
WDI	World Development Indicators

EXECUTIVE SUMMARY

Kenya, like most African countries has experienced an impressive economic growth in the last decade, evidenced by a 5% annual GDP growth rate, yet unemployment, poverty and gender disparities remain high. Despite employment creation being on top of the development agenda since independence, policies adopted to address this do not seem to be working, raising questions of the sustainability of the growth being experienced. From the Sessional Paper No. 10 of 1965 to the Vision 2030 of 2008, agriculture has been flagged as central in job creation but experience show contrary trends. The big question to policy analysts is whether agriculture has the potential to create the much needed jobs for inclusive growth in Kenya.

This study sought to understand employment and employment creation in the agricultural sector. Specifically, why, despite impressive growth in Kenya, poverty and unemployment persist. Why, despite several policy interventions, not much has changed in terms of employment creation? Why the benefits of growth have not been trickling down to the masses, leading to growing calls for more inclusive models of growth to avert social instability. Finally, why increasing economic growth has not been shared or inclusive?

To answer the above questions, this study used two case studies, sugar and cut-flower industries. These two industries were identified because of their diversity in employment creation by gender, government involvement and embedded political issues. The study used political settlements analysis lens. Mixed method approach to collect data included key informants, FGDs and employee surveys to study the two value chains both of which involved agriculture and agro-processing elements.

Based on the two case studies, it was established that; while political settlements in the agriculture sector have remained fairly constant, with a general agreement on how the sector is to be developed and the general policies, elite interests in specific sub-sectors combined with national (and to a great extent local) politics have varied, with certain sub-sectors and regions experiencing more interests and benefits than others. The implications for employment have also varied greatly in these two value chains. Second, sector specific settlements are more important in influencing employment creation than regime-based settlements. We found that political settlements in a public sector do not necessarily advance job creation and/or private sector settlements, and liberalism in general are not necessarily antithetical to job creation.

Though inclusive settlements were neither the most stable nor the most productive in terms of economic and agricultural growth or employment creation, whenever a political settlement collapsed, both agriculture and employment suffered. This seems to explain why changes or a

collapse of the existing political settlement on one hand and a steady decline in economic and agricultural growth rates on the other seem to coincide. Election cycles in Kenya have proven quite unsettling to existing political settlements in the country and have served as important periods of realignment. Whether involving one or more political parties, the uncertainty elite realignment causes to existing political settlements and the acrimonious electioneering period characterized by chaos, name calling and often violence, have had negative effects on the economy as a whole and agriculture and employment creation in particular. Thus, whether the political settlement continues or a new one emerges with the new regime, both agriculture and employment creation suffers.

Further, due to Kenya's varied geo-climatic conditions, different agricultural sub-sectors have a distinct geo-ethnic locale and hence, the success (or failure) of a sub-sector has significant political implications. As a result, the interests that existing political settlements have in a particular agricultural sub-sector and the benefits that accrue to the sub-sector, is dependent on the extent to which local political elites are supportive of the existing regime. Where local political elites and the local population in general, are supportive of the regime, government resources are directed to the sub-sector, and denied the same where local political elites oppose the regime. Even when government negligence and denial of resources has not led to the total collapse of the sector, as has happened in the sugar sub-sector, the emergence of cartels, have further undermined it.

The sugar subsector, despite being public driven and attracting more political interests, has not benefitted much from any of the political settlements. There is no regime or political settlement that has provided sugar producers special incentives. Further, due to its demand, the sugar sector has attracted cartels of importers whose interests conflict with those of producers. These cartels have had more influence on key political leaders whom they finance during elections. These competing interests in the sugar value chain have had negative effects on employment in the sector.

The cut-flower sub-sector, on the other hand, despite being privately-driven and being left to the market forces, seem to have benefitted more than the sugar sector. The cut-flower sub-sector is driven by a different political settlement with different set of interests that have converged along the private interests of the political elite, domestic business class and the foreign - owned large producers. Being produced in regions that have generally been supportive of the different ruling regimes, and driven by market forces, issues of efficiency, profits, and expansion have been critical. The sub-sector has experienced less interference from the political class compared to the sugar industry. The cut-flower industry has therefore experienced high mechanization and use of modern technology, which has promoted efficiency.

The different interests and political settlements that have emerged in the two sub-sectors have resulted in different outcomes. The negative political interest and cartels in the sugar industry have led to low efficiency, low technology, low employment and fewer returns to the producers, while the cut lower industry has been almost fully mechanized using latest industry technologies. The absence of such cartels or the negative political interests has enabled cut flower producers to be more innovative and to embrace technology than their counterparts in the sugar industry, something that has made the flower industry less susceptible to the changing political alliances and settlements. The latter seems to also have had a positive impact on job creation.

Contrary to the common perception that adoption of technology, mechanization and liberalization in the flower industry would have negative impact on employment, evidence shows employment has actually been on the rise. The flower industry leads within the agriculture sector in terms of employment creation. In fact, while in the rest of the agricultural subsectors' job creation seems to have stagnated or even declined, the cut-flower industry witnessed a steady growth in job creation, accounting for over 65% of the new jobs created in the agriculture sector between 2010 and 2015.

Another interesting finding from the two cases is that, while there is increasing feminization of jobs in the agriculture sector with the proportion of women in management positions also increasing, overall, the cut-flower industry seems to be creating jobs for women whereas the sugar industry creates more male jobs. Moreover, in the flower industry, women hold senior managerial positions whereas it is reverse in the sugar industry where the male gender dominates. This calls for further studies to establish why this is the case. While this could partly be attributed to the sugar production being more arduous labour, while cut flower production requires more flexible and nimble labour, there has been no much scientific evidence to make this assertion.

The absence of direct government involvement in financing and extension services for both sub-sectors has limited the potential for employment among smallholder farmers. There are over 2,500 and more than 250,000 smallholder farmers in the flower industry and sugar industries, respectively. Majority of these smallholder farmers use family labor, which limits their ability to increase paid employment despite the high potential for employment creation at the lower node of the value chain, a fact which is not well documented.

Finally, policy inconsistencies, conflict of interests, contradictions and interferences between various agencies in the sugar sector, and lack of competitive production and marketing processes in the sugar industry has meant that the industry has continued to face financial and managerial challenges. Politics in cane farming, milling and marketing of sugar seems to undermine the success of the sector and by extension adversely affect the livelihoods and employment status of thousands of Kenyans. Moreover, relevant laws and regulations governing sugar imports and exports should be amended to provide for higher accountability and public health standards in re-packaged sugar and for stiffer penalties for offenders.

SECTION ONE

INTRODUCTION

1.1 Background to the Study

Kenya like most African countries has generally experienced an impressive economic growth in the last decade as evidenced by average annual GDP growth rate of 5.2% during 2004-2014. Despite this growth, the pall of poverty and unemployment persist, raising concerns about the inclusiveness of contemporary growth (Meagher, 2015; ILO 2013; Nyang'oro 2013). Unemployment rates in Kenya have been high, especially among the youth population and efforts to create enough jobs to reduce the unemployment rates have not been of much success. The question that arises is whether the growth that has been experienced has been sustainable, inclusive and whether it has created employment and enabled part of the population to move out of poverty. Given the scenario of high poverty levels and unemployment, one can observe that the benefits of growth are not trickling down to the masses, leading to growing calls for more inclusive models of growth in order to avert a mounting risk of social instability.

This study focuses on the role of agriculture and agroprocessing sectors in generating employment in Kenya. It examines how employment/unemployment issues have been addressed in Kenya in the past, with a view to examining how inclusive employment in the context of recently realised economic growth can be promoted. The study is organized in six sections. After the introduction which anchors the research problem, section two presents macroeconomic context in Kenya by focusing more on institutional analysis. Section three and four examine the value chain issues of both sugar and cut-flower industries. Section five links the employment issues in the agricultural sector and makes an attempt to apply a political settlement analysis on the two sectors. Finally, section six provides conclusion and policy recommendations.

The debate on the link between economic growth and employment has been going on in the literature for some time (ILO 2013; IMF 2013). Though no general and universal relationship has been established, the general consensus is that a stagnant economy cannot generate enough employment opportunities especially if the population grows at a faster rate than the economic growth rate. As a factor of production, employment with a given combination of capital is necessary for continued growth. However, what matters is how much employment can be supported by economic activity. In situations where the economy cannot support all the active population, the result is surplus supply of labour that is unemployment (Nyang'oro 2013).

Rising unemployment has been a key concern among the policy makers in Kenya. Statistics show that Kenya is among the African countries with growing unemployment rates despite several initiatives and policies implemented to reduce poverty and unemployment (Table 1.1).

At independence, the government addressed unemployment through *Sessional Paper No. 1 of 1965* by ensuring that Kenyans have access to employment opportunities in the public and private sectors (Government of Kenya, 1965). The policy of indigenization of Kenya's civil service and Africanization of the economy were meant to also create employment for the majority of Kenyans. However, employment in the formal segment of the economy drastically reduced especially in the 1990s following the Structural Adjustment Programmes (SAPs). On coming to power in 2002, the National Rainbow Coalition (NARC) government addressed unemployment through the *Economic Recovery Strategy for Wealth and Employment Creation* (ERSWEC) development blueprint. In 2008, Kenya developed a long term development blueprint 'the Vision 2030' which among other things aims at creating employment for the rapidly growing population.

Table 1. 1: Unemployment Rates (%) by Age and Sex 1978 -2005

Age	1978	1986	1989			1998/99			2005/06		
	Total	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
15-19	26.6	36.2	13.2	11.9	12.5	21.8	26.4	24.3	22.4	27.7	25.0
20-24	18.5	29.2	12.5	9.8	11.1	19.0	33.9	27.1	21.0	27.3	24.2
25-29	4.8	8.6	6.3	5.7	6.0	8.2	21.6	15.5	13.5	17.9	15.7
30-34	2.0	2.7	3.6	4.1	3.8	4.8	16.8	10.8	6.1	9.2	7.5
35-39	1.8	2.1	2.8	3.4	3.1	5.0	11.8	8.4	6.9	8.3	7.6
40-44	0.7	0.7	2.6	3.3	2.9	7.8	10.6	9.1	6.4	6.4	6.4
45-49	1.1	2.0	2.5	3.4	2.9	4.9	12.5	8.2	4.9	6.5	5.7
50-54	1.4	0.9	2.7	4.4	3.5	6.3	11.1	8.7	4.9	4.4	4.7
55-59	1.5	4.1	3.2	5.0	4.0	14.2	12.7	13.5	4.8	3.2	4.0
60-64	3.2	_	4.2	7.7	5.9	7.5	15.7	11.7	4.2	0.8	2.5
Total	**6.7**	**9.7**	**6.5**	**6.6**	**6.5**	**9.8**	**19.3**	**14.6**	**11.2**	**14.3**	**12.7**

Source: Kamau and Wamuthenya (2015), Wamalwa (2009)

Data on unemployment in Kenya is scanty and irregularly generated through labour force surveys. As indicated in Table 1.1, between 1978 and 2005, unemployment rate was on the rise, from 6.7% to a peak of 14.3 (1998/99) and then 12.7% in (2005/06).[1]In terms of gender, unemployment is higher among women compared to men across all age-groups, resulting in

[1] The 2005/06 Kenya Integrated Household Baseline Survey (2005/06) is the most current labour survey in Kenya.

gender imbalance among the unemployed. Besides gender discrimination, youth population (18-35 years) has higher chances of being unemployed implying a serious age dimension in unemployment.[2]

Between 2002 and 2007, Kenya's economic growth increased from a 0.3 per cent to almost 7 per cent, respectively. Growth during this period took place in spite of a resurgence of drought that negatively affected the agricultural sector and was a result of the emergence or revival of other sectors, notably tourism (ILO, 2013). However, this expansionary phase ended abruptly as both investment and exports collapsed as a result of the post-election violence that broke out at the beginning of 2008 and which adversely affected most sectors of the economy. This was exacerbated by the global financial and economic crisis experienced in most of the export destinations for Kenyan products. By the year 2010 surprisingly, the Kenyan economy had recovered and achieved an impressive growth of 7.3 per cent. Since then the economic growth has stabilized at about 5%. In 2015, for instance economic growth was 6.3%. According to the World Bank (2015), the Kenyan economy is growing faster than many of its peers in the region, with expansion projected at 6.6% in 2016 and 7%in 2017. Kenya attained lower-middle-income status and became the fifth-largest economy in sub-Saharan Africa in 2015 after the country's statistics agency revised the method for calculating GDP, increasing the size of the economy by a quarter.

Despite this impressive economic performance, social indicators such as poverty levels, unemployment, and gender disparities remain grim. For instance, close to 45 per cent of the population live below the poverty line while unemployment rate is estimated at more than 30%. The problem of unemployment is even higher among the youth where estimates according to the Kenya National Bureau of Statistics are 40% and above. This can be attributed to the relatively slow transformation to an industrial-based economy, whereby the size of the industrial sector has remained unchanged during the past three decades. The pace of transformation has been adversely affected by the declining savings rate and stagnant investment. The reliance on agriculture which represents between 25% and 30% of the Kenya's GDP has made the economy particularly vulnerable to the rising costs of inputs (mainly oil) and inclement weather conditions, exacerbated by the fact that tea and coffee alone account for nearly one-fifth of all export earnings (ILO, 2013). Tourism, which in early 2000 was becoming a major source of foreign exchange earnings in Kenya, has since 2007 been deteriorating due to terrorism threats in the country.

[2]See Kamau and Wamuthenya (2015) for more details on gender and age variations in unemployment in Kenya.

With low industrial transformation, the agricultural sector continues to dominate Kenya's economy, although only 15 percent of Kenya's total land area has sufficient fertility and rainfall to be farmed. In 2015, agriculture was the leading sector of the economy, accounting for 23% of wage employment and providing livelihood for almost 70% of Kenyans. About one-half of total agricultural output is non-marketed subsistence production. The principal cash crops are tea, horticultural produce, and coffee; horticultural produce and tea are the main growth sectors and the two most valuable of all of Kenya's exports.

In 2015, the horticultural industry accounted for 23% and tea for 20% of total export earnings. Most of the industry/manufacturing sector is dependent on agriculture for raw materials. As such, agriculture and agro-processing industries are important in promoting inclusive growth and poverty reduction in Kenya. According to the World Bank (2015), with solid growth continuing in infrastructure, agricultural production, manufacturing and other industries, Kenya is poised to be among the fastest-growing economies in East Africa. The agricultural sector has the potential to promote employment and wellbeing of the rural population in Kenya, yet the government has not implemented, in any meaningful way, those policies directly addressing employment creation. Indeed, despite employment creation being made central in many government policy and strategy documents, such as the Sessional Paper No. 10 of 1965; the Sessional Paper No. 1 of 1986; the Economic Recovery Strategy for Employment and Wealth Creation (2003-2007) and the Vision 2030 (2008) and despite agricultural sector being identified as key sector in generating employment opportunities, implementation of these initiatives has been wanting. It is therefore not surprising that job creation in the country has mainly been in the informal sector which accounts for almost 80% of employment (Table 1.2).

Table 1. 2: Employment in Kenya 2000 – 2015 ('000)

	2000	2008	2010	2011	2012	2013	2014	2015
Wage Employment	1695.4	1,943.5	2,016.2	2,084.1	2,155.8	2,283.1	2,370.2	2,183.4
Self Employed	65.3	67.5	69.8	73.8	76.9	83.8	103.0	105.7
Informal Sector	4150.9	7,946.1	9,371.1	9,958.3	10,549.4	11,150.1	11,843.5	12,962.5
Total	5911.6	9,946.1	11,457.1	12,116.2	12,782.0	13,51708	14,316.7	15,251.60

Source: KNBS Economic Survey (various issues)

Gender disparities in employment in Kenya are also evident. Across sectors and over time, women account for less than half of total employment as shown in Table 1.3. Moreover, agriculture sector accounts for the highest proportion of wage employees in Kenya, making it an important sector in addressing unemployment. Proportionately, this sector absorbs more female workers compared to the manufacturing, wholesale &retail, and ICT sectors (Table 1.3).

Table 1. 3: Employment in Kenya by Gender and Sector (in '000)

	2000		2010		2012		2014	
	Male	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
Agriculture	234.1	77.5	263.9	79.9	209.9	127.8	220.6	112.7
Manufacturing	180.5	37.4	229.2	41.1	192.8	78.1	234.4	53.0
Wholesale& Retail	113.1	42.3	166.3	60.5	147.0	51.0	164.7	55.5
ICT	-	-	-	-	52.4	33.3	61.9	37.2
Transport & Storage	66.2	17.1	119.6	31.8	55.7	20.4	58.3	21.4
Financial Services	62.9	21.7	74.6	26.4	39.2	26.1	40.4	27.1
Total[3]	**1182.6**	**494.2**	**1,468.1**	**591.0**	**1,366.6**	**789.0**	**1503.9**	**866.3**

Source: KNBS Economic Survey (various issues)

Evidently, there is need to address unemployment issues in Kenya more so among the female unemployed and those that are underemployed. Since independence in 1963, policies have been designed and put in place to promote employment as discussed earlier. However, the outcome seems not to have been realised as expected. There is therefore the need to explore the interplay between employments policies and political settlements in Kenya.

1.2 Problem Statement

There has been great scholarly concern on inclusive growth based on the recent jobless economic growth experienced in most African countries. In Kenya, scholars and policy actors have been interested in finding out if the impressive growth realised in the last decade has had a trickledown effect on the majority of the citizens in terms of employment creation. If so what is the nature of the employment being created? Is the employment being created able to move majority of the employees out of poverty?

Kenya has had mixed performance in social-economic indicators lately, impressive GDP growth amidst widespread poverty. For instance, Kenya progressed well in achieving universal primary education, whereby the net enrolment ratio increased from 67.8% in 2000 to 95.9% in 2014, while the gross enrolment ratio in 2014 amounted to 119.3%. About 52% of Kenya's population has access to basic healthcare services within 5 km. Access to basic primary healthcare and referral services remains, however, a challenge. By 2013, the infant mortality rate in Kenya had fallen to 48 per one thousand live births from 67 in 2000. The under-five mortality rate stood at 71 per one thousand live births in 2013 versus 110 in 2000.

[3]Total in this case includes all Other Sectors not indicated in the Table. For the years 2000 and 2010, ICT was included in the 'transport and storage' sector then named as 'transport storage and communication'.

Maternal mortality continues to be a serious development challenge in Kenya at both national and county levels. Kenya's maternal mortality rate is placed at 400 per one hundred thousand live births in 2013. The HIV/AIDS prevalence rate declined from over 10% in 1999 to 6.0% in 2015 while HIV/AIDS prevalence amongst the 15-24 age-groups declined to 2.1% in 2014 from 3.6% in 2003. However, Kenya is ranked 16^{th}amongst countries with the highest TB burden. The TB incidence rose from 112 per one hundred thousand in 1990 to 341 per one hundred thousand in 2013. Otherwise, the proportion of children less than 5 years old sleeping under insecticide-treated bed nets increased from 2.9% in 2000 to 42.2% in 2011, leading to a reduction in malaria-related deaths (Republic of Kenya, 2016, World Bank 2015).

The World Bank's June 2015 Kenya Economic Update alludes to still existing widespread inequalities. It notes that the average Kenyan is healthier, more educated and receives better infrastructure services than a decade earlier, while a large fraction of the population continues to live in fragile conditions with substandard access to water, sanitation and energy.

For the country to realise inclusive development, there is need for economic growth, especially in the agriculture sector, which is an important avenue for sustaining improvements in the social indicators. It is estimated that over 67 per cent of Kenyans depend on agriculture sector either directly or indirectly for their livelihoods (Kenya- Vision 2030, 2008).There is enough evidence to show that without appropriate improvement in agriculture, employment creation in Kenya remains largely a mirage. In spite of the centrality of the sector in the economy, agricultural sector policies seem not to have been successful in transforming the sector and economy at large. Sectoral policies rarely meet the stated objectives, government support and incentives are deliberately directed to certain regions, products or sectors, besides what is prioritised. Consequently, employment, particularly in rural areas has been lower than optimal. In other words, the sector does not realise its full potential when it comes to addressing issues of unemployment

This study was therefore designed to investigate the factors that account for the performance of agriculture and agro-processing sectors in the promotion of employment in Kenya using the political settlement lens. The study focused on the sugar and cut-flower industries in Kenya. These two industries are not only labour intensive and therefore generating much needed employment opportunities, but have different value chains, sugar being largely domestic while cut-flower is largely export oriented. As indicated elsewhere in this study, the sugar value chain is dominated by state owned enterprises and domestic market focused while cut-flower is largely private sector owned and export oriented sector. This informs the role policies play in shaping performance of agriculture and agro-processing sectors interests over time.

1.3 Research Questions

The broad question that guided this study was 'to what extent can agriculture and agro processing sectors contribute towards quality employment creation in Kenya?'

In order to answer this broad question, the following specific research questions guided the study:

1. What is the relationship between agriculture and agro-processing sectors performance and economic performance in Kenya?
2. What is the role of agriculture and agro-processing sectors in creating employment opportunities in Kenya?
3. What is the presence, nature, role and interests of political elites and their influence on employment policies in the agriculture and agro-processing sectors in Kenya?
4. What policies are important in promoting productive employment in Kenya's agriculture and agro-processing sectors?

1.4 Research Objectives

The broad objective of this study was to examine the level and quality of jobs created in the agriculture and agro-processing sectors in Kenya with a view to unmasking the issue of inclusive growth in Kenya using the sugar and cut-flower value chains.

Specifically, the study was set out to:

1) Assess the relationship between performance in the agriculture and agro-processing sectors on economic performance
2) Examine the status and policies for creating employment in the sugar and cut-flower industries;
3) Assess the impact of political elites on agricultural policies and employment creation in the agriculture and agro-processing sectors; and,
4) Suggest policy suggestions for enhancing productive employment creation in the agriculture and agro-processing sector.

1.5 Justification for the Case Studies Selected

The agricultural sector in Kenya has a high potential for employment creation. Given the slow pace of transformation in the industrial sector, which has stagnated at 10% of the GDP, development in Kenya, must be anchored around the agriculture sector. However, the potential of the agricultural sector has not been realised because the ruling elites have taken a positive or negative interest in certain sub-sectors depending on whether local political elites are supportive of the regime or not. Sub-sectors in regions whose local political elites support the regime have had more resources and *government friendly actions* than those in regions considered to be in the opposition. Agricultural products from areas that are perceived as *'political opponent dominated'*, are neglected irrespective of how important the sub-sector is to the economy or to employment creation.

Given the diversity and variability of the agricultural sector, the research team identified two industries namely sugar, which is 'public sector' driven, and cut-flower, driven by the private sector, as case studies for the research project. Both sugar cane and cut-flower farming in Kenya is largely done by small-scale farmers. However, unlike in sugar where production is dominated by these small-scale farmers, a small number of medium and large-scale flower producers account for over 80% of cut-flower exports. Lastly, unlike sugar production that is overwhelmingly for domestic consumption, almost every major cut flower farm produces for export markets.

1.6 Selection of the two case studies

1.6.1 The Sugar Industry

Since the adoption of SAPs in mid 1980s, the provision of subsidies and support to sugar cane farmers declined drastically and farmers were left to deal directly with sugar millers leading to some form of manipulation. Generally, growers would enter into supply agreements with millers for the certainty that their cane will be processed. Millers would also arrange transport of cane from the farms to the factory. The experience with some millers was failure to collect canes on time, which would result to low Estimated Recoverable Cristal (ERC) and hence low pay to farmers. In some instances, millers delay payments to farmers which frustrate the sugarcane efforts. [4]

More intriguing is the fact that sugarcane is grown in the regions (sugar belts) perceived as 'opposition dominated' by nearly all political regimes in power since independence; and therefore this crop was manipulated for political gains. Sugar processing was in the hands of

[4] See Chisanga et al (2014 p. 7-9) for details on how farmers are frustrated when governments neglect the industry.

the state and all millers until 2005 were state-owned parastatals. Efforts to privatize some of the sugar mills have yielded poor results. In 1973, the Kenya Sugar Authority Order was developed by the government to guide in the production and milling of sugar. This was anchored in the State Corporation Act which established the Kenya Sugar Authority. The Sugar Policy guided sugar production and processing until 2001, when the Sugar Act (2001) was developed and assented into law. In 2011, the Sugar Act was revised through the Sugar Bill 2011 which is the current legislative policy on sugar production in Kenya. According to the Kenya Sugar Authority Order (1973), each sugar mills or jaggery would be located outside a radius of 40kilometres from each other to ensure that each factory had its own constituency of farmers supplying cane. This sensible policy has since been politically reversed with the mushrooming of privately-owned sugar mills which are encroaching into regions previously belonging to other factories.

Sugar is one of the most widely consumed commodities in Kenya with a demand of 850,000 Metric tonnes (MT) in 2014 against a production of about 600,000 MT resulting to importation of about 250,000 metric tonnes.[5]Sugar importation is marred by political issues due to interests by various political elites. It is only in the Sugar industry where one finds the use of the term 'BARONS' to delineate controlling cartels, others sectors where this terminology is used include oil and illicit drugs. The sugar barons who happen to be well connected politically, more often than not hoard sugar so as to create artificial shortage and thereby forcing the government to allow importation. Therefore, the sugar industry case study was important in revealing the interplay between politics and policies, and how these shape the performance and employment creation in the agriculture industry. It is for this reason that this industry was chosen for investigation.

1.6.2 The Cut Flower Industry

The Kenya flower sector is a major contributor to the economy in terms of employment and foreign exchange earnings. It is estimated that there are about 300 large scale flower farms and about 2,000 small scale flower farms in Kenya. The industry employs between 90,000 and 100,000 workers, of which more than 60% are women. The industry is estimated to support about 1.2 million people indirectly, particularly those working in subsidiary industries, like transport, packing, input firms and/or export industries. The industry is therefore very important when it comes to employment creation in Kenya. While the industry is dominated

[5]According to the *Kenya Sugar Board*, the national industry regulator, Kenya produced 517,667 metric tonnes of processed powder in 2014 and 522,449 in 2013. In 2015, output was projected at about 600,000. With an annual consumption capacity of about 850,000 metric tonnes, the country imported between 250,000 and 350,000 metric tonnes annually from COMESA region.

by a few, mainly foreign-owned firms, there are also a large group of African small-scale farmers. The industry is export oriented and therefore crucial in foreign exchange earnings.

The cut-flower industry was included in this study for a number of reasons. First, the industry has been growing tremendously since 1990 and it is one of the leading foreign exchange earners in Kenya, ranking number two after tea (Economic Survey 2015). As opposed to sugar, the industry is largely *private sector-driven* with most firms being owned by local and foreign (FDI) individuals. The agricultural and agro-processing elements of this industry are intertwined and therefore the transition from one end of the value chain to the other is not very distinct. The industry has over time experienced minimal government/political interference. However, besides the foreign owned flower farms, the local ones are owned mostly by political elites and/or their associates. This could perhaps explain why this industry has received positive political support over the time.

The industry uses high level technology but also employs thousands of people. Most workers in this industry are women who hold both production and managerial positions. There has been a lot of debate about the working condition and labour standards in this industry which makes it political because depending on where one is standing these standards, are perceived differently. Therefore, this industry has huge potential for employment creation and poverty reduction in Kenya. Moreover, knowledge about the nature of employment in this industry is contentious, hence the need for an in-depth study.

1.7 Methodology

This study began by identifying the two sectors to be examined in the light of employment creation in agriculture and agro-processing. Through brainstorming session, the research team selected the sugar cane and cut-flower industries as case studies. As indicated in section 1.6, these two cases demonstrated unique features in terms of generating employment (being labour intensive) and they both constituted agriculture and agro-processing components of their respective value chain. A more intriguing feature was the variation in terms of government ownership and involvement in the two industries.

Following the identification of the two industries to be investigated, the study team adopted a mixed research design to gather information required to answer the research questions. This entailed a review of secondary materials drawn from published literature and documentary research, supplemented by primary data obtained from Key Informant (KI) interviews, Focus Group Discussions (FGDs) and surveys.

With regard to the secondary materials, various documents were studied and reviewed, in order to get information on political regimes, performance and employment in agriculture as well as agro-processing sectors in Kenya. This included long term National Development Policies; Development Plans, Statistical Abstracts and Strategic Plans. The aim was to understand the selected sectors in respect to policies, actors, institutions and employment creation; and secondly, to examine how different political regimes engage actors, create and nurture institutions as well as inform employment policies and practices in the identified two sectors. This review yielded both qualitative and quantitative information that assisted in the preliminary analysis, understanding of intricate questions on political economy and political settlement issues in the agricultural sector.

Primary data was collected from the two industries namely sugar and cut-flower. In each industry a few enterprises were identified for in-depth analysis – three in the sugar industry and six in the cut-flower industry. The main aim was to identify enterprises that would give a broad picture of the industry and also provide diversity in terms ownership and operations.

In each of the selected enterprise, discussions were held with the top management or owners so as to understand how policies and politics influenced their operations. To ensure that respondents were able to speak freely, the study adopted key informant approach whereby each of these key persons were interviewed separately. Besides those who were currently involved in the running of these enterprises, key informant interviews were conducted among those who were thought to have influenced the operation of these enterprises. This was done through the review of relevant literature regarding the industry, referrals and through snowballing. In particular, policy makers and bureaucrats in office and those who served in previous regimes were sampled for discussions. In addition, key informants were drawn from those working in the two sub-sectors as well as those who had served in the past. Selected individuals working in the private sectors, including development partners supporting the sector were also interviewed. In total, we conducted 18 key informant interviews in both industries.

The researchers also conducted focus group discussions (FGDs) which largely involved middle level managers and government officials working in the two industries. Due to logistics and time constraints, FGDs were confined to an operation area in such a way that they were conducted around the factory or the flower farm. In total there were six FGDs conducted.

Finally, the research team conducted brief surveys among the employees working in the factories of flower farms with a view to understanding their demographics and the perceptions about their employments in the respective industries. Around each production unit (factory/farm) about 20 employees representing major operations of the industry were randomly selected for the survey. In the sugar industry, a separate survey of farmers was conducted. This mainly targeted those farmers who were supplying cane to the factory that was being studied.

In the sugar industry, in-depth interviews were conducted with management of three sugar factories namely Mumias, Sony and Kibos sugar factories. These factories were selected to represent diversity in terms of ownership and sizes. Mumias is a public company that is listed in the Nairobi Securities Exchange (NSE) with majority shareholding being the Government of Kenya which owns 56% of the shareholding. It is also one of the largest sugar factories going by their installed capacity. The second factory selected, Sony Sugar, appears to be doing better than Mumias in terms of performance, even though it is purely state-owned. This factory is among the oldest firms in Kenya having been established in 1979. The third one (Kibos Sugar and Allied Industries Ltd), located in Kisumu was established in 2007 implying that it is relatively new. It is purely private-owned and among the ones with impressive performance. It is the only factory in Kenya that was producing industrial sugar.

As mentioned earlier, around each factory, we randomly sampled at least 20 employees. In total 70 sugar factory employees participated in the recognisance survey. Of this 70, 39 were male while 31 were female participants. For the farmers, there were 62 sugar cane farmers who participated in the survey. Of this number, 47 were male while 25 were female.

In the case of cut-flower industry, we followed a similar approach in identifying six farms/firms for the case study/in-depth discussion on the basis of farm-size, location, and ownership all aimed at understanding employment diversity of the industry. The six flower farms covered included: Magana Flowers in Kiambu, Timaflor and Kisima Flowers (both in Meru), PJ Dave and Finlays, who have production in both Naivasha and Meru and Live Wire Limited in Naivasha. In addition, three out-growers' farms were studied which included Kibera Cut Flowers (a group of 42 members), Gikumari Vision Farmers (which has 13 members) and Mwihoko Flowers (family business).[6]The six flower farms are located in Kiambu, Naivasha and Timau which are dominant in cut-flower growing areas. Out of the six farms, only one was a purely flower producer. In the other five, flowers were either the biggest production units of their business, or the most important in terms of commodities that they traded in.

In each of the selected flower farms, a sample of 10 employees was randomly selected and interviewed in order to enhance our understanding of employment issues. A group of small-scale farmers (out-growers) were also interviewed with a view to understand the dynamics of the cut-flower industry. In the end, we had a total of 87 employees in the cut-flower industry participating in the survey. Of this, 51 (59%) were male while 36 (41%) were female. The male dominance in our sample could infer selection bias as opposed to true reflection of

[6]Engagements with these out-growers were quite limited.

employment status. In other words, female employees were reluctant to participate in the survey compared to their male counterparts.

This process yielded both quantitative and qualitative data. The analysis of quantitative data was mainly through frequency tables and simple statistical analysis. The bulk of the data which was qualitative was analysed through thematic approach based on issues of employment and political settlements in the respective industries.

SECTION TWO

MACROECONOMIC, POLITICAL AND POLICY CONTEXT OF KENYA

2.1 Introduction

Kenya has recently benefitted from the return to macroeconomic and political stability, and a relative improvement in external conditions. The economy has been on an encouraging growth path, averaging 5.4 per cent growth per year between 2010 and 2014. According to the UNECA (2015), this performance was driven largely by the agricultural and the services sectors, which recorded highest growth over the period. This growth however falls short of the 10 per cent annual growth target set in Kenya's Vision 2030. There has been a considerable debate over the relative underperformance of the manufacturing sector which has stagnated at about 10% of the GDP, and the lack of structural transformation of the economy.

Maintaining macroeconomic stability has been identified as a prerequisite for sustained and inclusive development. The broad objective of macroeconomic policy is to contribute to economic and social well-being in an equitable and sustainable manner through employment generation, as well as providing fiscal space to address other critical social concerns (GoK, 2016). As such, the Government has continued to pursue prudent fiscal and monetary policies that are supportive of accelerated inclusive growth and development.

Kenya's economy remains vulnerable to exogenous shocks, especially those originating from both domestic and external sources, particularly drought and other weather related shocks, international commodity prices and uncertain global economic and financial outlook. In this chapter we discuss macroeconomic indicators, followed by the role of agriculture in the economy, political & policy environment, and finally policies on employment creation in Kenya.

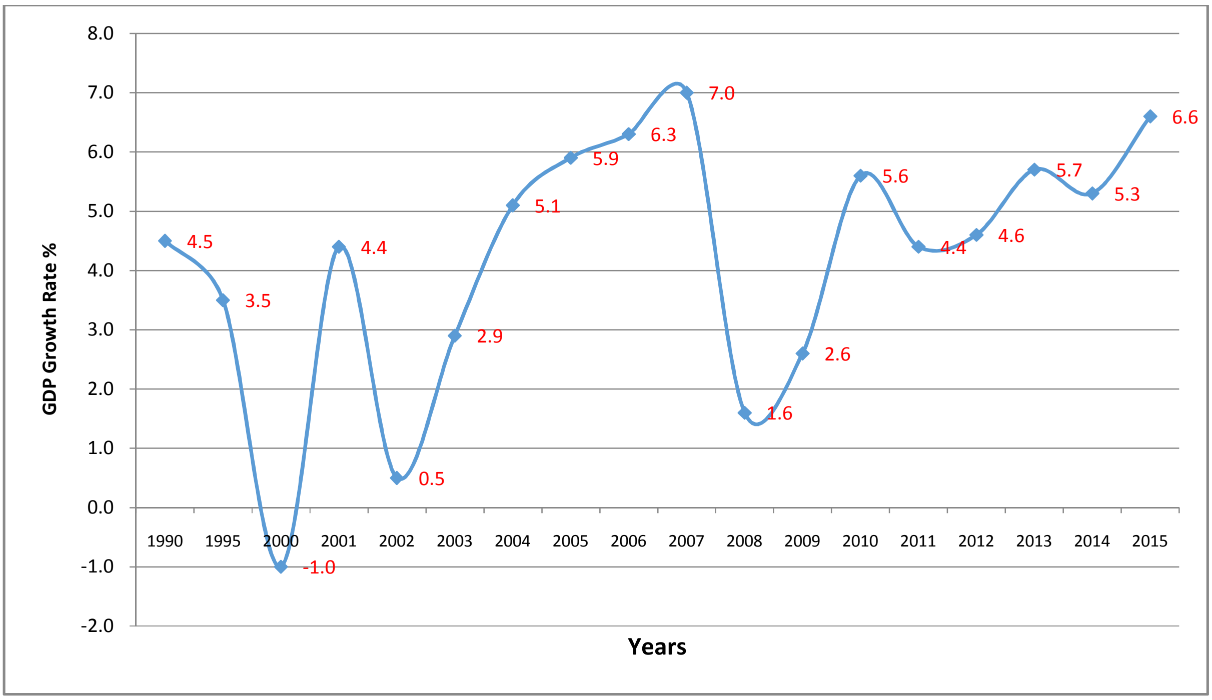
2.2 General Macroeconomic Context

Kenya is a lower middle-income country in the East African region, with an estimated population of 41.8 million and a GDP of US$ 55.2 billion as at 2013 (UNECA 2015). However, the country has made tremendous achievements in promoting macroeconomic stability, enhancing business environment, and infrastructural development. On education, the Government has consistently increased capitation for free primary and free day secondary education while on health, public hospitals have been equipped with specialized medical equipment. To reduce the burden on households for the vulnerable and disadvantaged, the Government has provided cash transfers. On food security there has been efforts to modernize the agriculture sector and roll out irrigation programmes across the country.

According to the government projections, the overall GDP growth is expected to amount to 6.6% and 7.3% in 2015 and 2016, respectively (GoK, 2016). Consumer price index (CPI) inflation is expected to remain in the single digits, at around 5%, during the same period. The short- to medium-term positive growth projections are based on assumptions of: increased rainfall for enhanced agricultural production; a stable macroeconomic environment; continued low international oil prices; stability of the Kenya shilling; improvement in the security situation for a positive influence on the tourism sector; and, reforms in the areas of governance and justice.

Figure 2.1 shows the GDP growth in Kenya between 1990 and 2015. The vulnerability of economic performance is evident especially in 1990s and early 2000. The worst GDP growth was recorded in 2000 when the growth was negative 0.8%. Other periods with low performance included 1997, 2002 and 2008 which apparently were election periods. Overall, the economy has been on the rise with average GDP growth of 5.1% between 2005 and 2015. Between 2012 and 2015, the economy has been on an expansionary trend. However, to achieve Vision 2030's GDP growth targets of 10%, there is need for greater economic dynamism.

Figure 2.1: Real Gross Domestic Product Growth 1990 – 2015 (Annual, %)



Source: Economic Survey (Various issues)

Agriculture sector remains a key sector in the Kenyan economy accounting for nearly 29% of gross value added of the GDP. Over the past 15 years, the share of agriculture in GDP has slightly increased from 23.4% in 2000 to 27.3% in 2014, while the share of services decreased from 60% to 55% over the same period (Kenya National Bureau of Statistics, 2015). Kenya has struggled to boost the transformation of its economy into sectors with higher productivity, which is needed to underpin its medium term prospects.[7]Agriculture was followed by financial services (14.5%), manufacturing (10.1%), transport, storage and communication (9.5%), and wholesale and retail trade (9.1%) in 2014 (see Table 2.1).

Table 2. 1: Sectoral Contribution to GDP (as % of GDP)

	2000	2010	2013	2014
Agriculture	23.4	24.8	29.5	27.3
Manufacturing	10.3	11.3	11.7	10.1
Mining & Quarry	0.2	0.8	0.9	0.8
Electricity, gas & water	1.9	1.9	2.2	1.8
Construction	4.1	4.5	5.0	4.8
Wholesale & retail trade and hotels	12.6	9.8	10.2	9.1
Trasport, storage &communication	16.4	9.0	9.9	9.5
Finance, Insurance real estate	9.5	13.9	15.8	14.5
Public Administration	4.6	5.9	5.4	5.6
Others	17.0	18.1	9.4	16.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Authors' compilation from KNBS- Economic Survey (various Issues)

Given the change in sectoral contribution to the GDP across time, it can be argued that economic growth has been fairly broad-based, in the sense that agricultural sector contribution decreased marginaly between 2013 and 2014, while the services sctors'contribution has been on the rise. Manufacturing sector's contribution to GDP stagnated at about 10 per cent during the period 2000 – 2014.

2.3 Political and Policy Context of Kenya

The political and policy context in Kenya has been complex with many actors and institutions at play, some meant or intended to increase employment, but which failed to address the question of how to increase such employment. Kenya'sagricultural policies beginning with colonial regime have also been skewed towards certain crops influenced by powerful actors,

[7]See also UNECA (2015:6) for more details on Kenya's economic performance.

governments in power and the underlying economic paradigms, sometimes at the expense of employment creation. During the colonial regime, agriculture was an exclusive sector, with its institutions serving exclusive settler interests that excluded Africans who constituted an unpaid pool of native labour reserves (Bates, 1981; 1989). These exclusive institutions—farmers' associations and cooperatives—gave rise to politics that protected settler interests, and later those of African political elites. The African elites, led by Jomo Kenyatta, who took over at independence came up with several policies, some meant to address employment creation and the promotion of certain crops. Themost enduring has been the 1965 Sessional Paper No. 10 on *African Socialism and its Application to Planning in Kenya.*

The Sessional Paper was meant to Africanize the economy and indigenized the public service as well as ensuring that the government supported both. However, although the Paper had good intentions, it ended up establishing state control in the economy and agriculture and attracted only minimal private involvement. Employment creation was also minimal. The state decided what commodities to promote and setup incentive structures, which determined pricing and marketing of agricultural products. This pricing structure favored certain commodities, groups and regions. The Sessional Paper further defined the Kenyan state not just as an enforcer of law and order, but one that also implemented social and economic programs to remedy historical and social injustices.

In farming, it was through the Paper and other government policies of encouraging foreign investments that foreign corporations were granted large tracks of land for farming. In fact, it is through this that Dansk Chrysanthemum and Kultur (DCK) was granted 6,000 acres of land in the Rift Valley to start the first large scale flower farming in the country. The Policy also facilitated the government to grant small scale farmers land and other incentives, including agriculture extension workers and other services to the agriculture and horticulture sectors. This became the genesis of the thousands of jobs that the horticulture sector would create. There were also thousands of jobs created in the feeder industries, including transportation, packaging, and retailing of flowers. More jobs would be created if the foreign farms in flower production were to fully utilize all the land they have.

President Kenyatta was replaced by Moi in 1978, who continued with the Kenyatta policies. For example, like Kenyatta, President Moi facilitated more foreign firms to acquire thousands of acres for flower farming. The Danish flower firm, Oserian, was established in the 1980s and remained a major producer and employer until the late 2000s.Over time, there has been increasing investments in the sector. To check the declining economic and agricultural growth rate, Moi instituted new policies: including; the establishment of Export Processing Zones in Nairobi, Mombasa, Eldoret, and Kerio-Valley, Manufacturing-under-Bond, and Export Compensation Schemes. He introduced three key policies: a). The National Extension Program (NEP II) in 1992 which aimed at revitalizing agriculture; b). Government Sessional Paper No. 2

of 1996 on Industrial Transformation to the Year 2020 to integrate Agriculture to industry; and, (c) The Poverty Reduction Strategy (PRS) Policy paper in 1999 (GOK 1999). These policies were not fully implemented meaning that employment remained a major challenge to President Moi's 24 year's rule.

Moi was replaced by President Kibaki, who put in place more policies, including: (1) The Economic Recovery Strategy for Wealth and Employment Creation (ERS); (2) The Strategy for Revitalizing Agriculture (SRA) launched in 2004 and (3) the Agricultural Sector Development Strategy (ASDS). These were credited with the increase in growth rate in the agricultural sector of 6.1% in 2007. The ERS gave the agricultural sector more prominence, shifted Kenya's economic strategy from one aimed at reducing poverty to wealth and employment creation (Rook 2010). The ASDS was meant to transform Kenya's agriculture into a profitable, commercially oriented and internationally and regionally competitive economic activity. Kibaki also revived many agricultural institutions and cooperative societies, reviewed the Cooperative Societies Act and formulated a new Cooperative Development Policy; passed the SACCO Regulatory Act, and operationalised the SACCO Regulatory Authority. In the 1990s and 2007, the political turmoil's and post-election violence that characterised general elections inhibited economic growth.[8]

The post-Kibaki regime, under President Uhuru's Jubilee Alliance government seems to have deviated from the preceding regimes. Uhuru Kenyatta's government has not promoted the agriculture sector in any significant way. Thus, the performance of the agricultural sector has not been impressive in the last four years of Uhuru Kenyatta government. Like in other regimes, agriculture remains close to the ruling elites and the Ministry of Agriculture has a Kalenjin Cabinet Secretary. In terms of the agenda, the regime is geared towards information technology (ICT). The Laptop campaign flagship upon which the regime was elected is being pursued in spite of the many challenges that the flagship faces. With the exception to the Standard Gauge Railway line, a carryover from Kibaki-Raila government, most of the Jubilee projects seem to be ICT related.

2.4 Impact of Politics on Kenya's Economy

Since the late 1980s, following the adoption of SAPs and the introduction of the multiparty system in 1991, there seems to be an intricate pattern of two simultaneous developments taking place in Kenya—the disruption of existing fragile political settlements on one hand and a steady decline in economic and agricultural growth rates on the other.

[8]See Boone 2011 for more details on the geography of electoral violence in Kenya.

The term 'political settlement' refers to the formal and informal process of bargaining between elites as well as between the state and organised groups in society regarding the organising of power. Political settlement underpins state and state-society relations and forms the relationship between formal and informal institutions and the distribution of power in society. According to Khan (2010:4), a political settlement is defined as a 'combination of power and institutions' that is 'mutually compatible' and also 'sustainable' in terms of economic and political viability. Grey and Whitefield (2014:3) further argue that economic structure of developing countries create strong incentives for the emergence of patron –client networks and the domination of personalised politics.

Political settlements analysis concerns itself with the informal and formal processes, agreements, and practices in a society that help consolidate *politics***,** rather than violence, as a means for dealing with disagreements about interests, ideas and the distribution and use of power (Kensal, 2016). The analysis is premised on the belief that employment and development in general cannot take place in the midst of violence. Political settlements evolve; they can include, but are not limited to, specific agreements like peace deals (Laws and Leftwich 2014)and may involve shifting resources among sectors of the economy, geographical areas, and groups in the society and the necessity such shifts can generate some opposition within society (PASGR 2015:8). Moreover, the distribution of power outside and within the ruling coalition determines the political costs of certain policies, as well as the effectiveness of implementing them, given the resistance or support from powerful groups. The Political settlement approach focuses on how competition among groups shapes the creation, distribution and use of rents, especially learning rents, as well as the ability of ruling elites to implement changes in formal and informal institutions that are contested (p. 9).

Political settlements differ from political regimes, a distinguishing aspect being the comparative stability of political regimes as opposed to political settlements. Regimes are often stable, tied to democratic elections and time bound unless disturbed. On the other hand, political settlements are unstable and depend on the power and strength of various elites to influence the ruling elites to their favor. The influence has to be sustained through perks and lobbying to enable access and distribution of resources in favor of winning elites. In cases where an elite group has totally penetrated a political regime, the outcome is a nuanced political regime embedding political settlement(s) which cannot be easily separated from the regime. The outcome of this is a synergy in policy making, and allocation of resources to the advantage of the embedded elite groups.

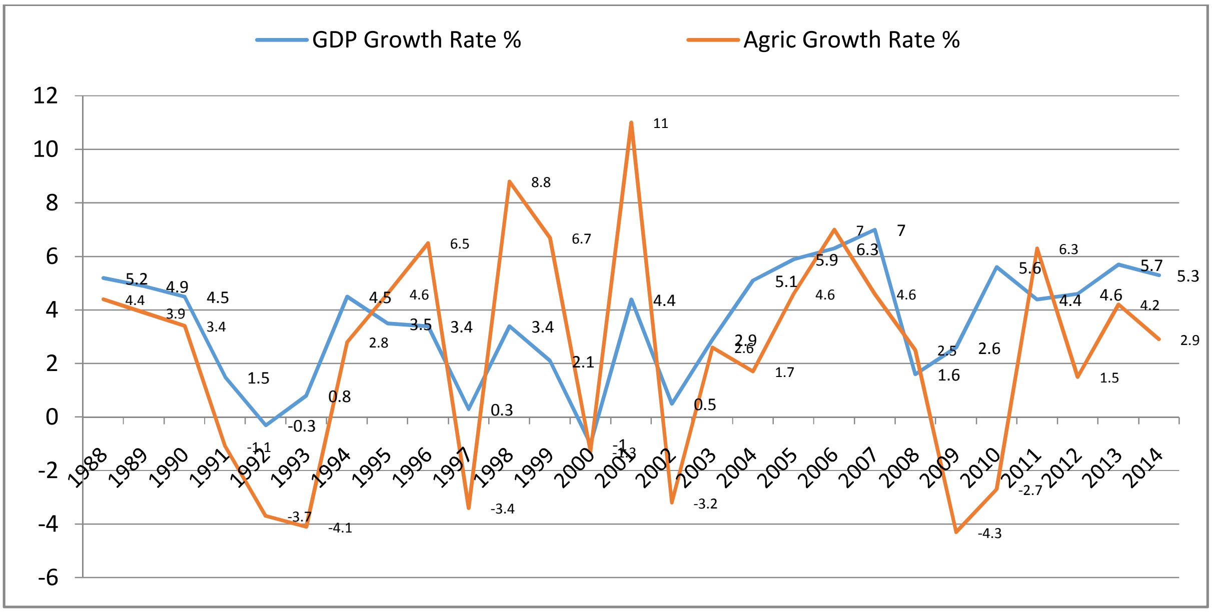
In the Kenyan case, the political elites who at any given time take power operate a nuanced political regime, in which it is difficult to separate the ruling elite and other power elites. The ruling elite balance other elite interests and nurture coalitions when necessary to keep themselves in power. Successful balancing of various elite interests at any given period constitutes a political settlement which stabilizes a ruling elite and regime, as other elite groups continue to either find space in the existing settlement or destabilize the same for a new settlement.

In almost every election cycle in Kenya, the existing political regime, whether involving one or more political parties, experiences both internal and external challenges, giving rise to a period of uncertainty, and towards the last years of each regime, an election campaign characterized by chaos, name calling and often violence. There is also a significant realignment of the political settlement, with key members leaving to contest in the opposition camp, while new ones are incorporated in an attempt to broaden the settlement to ensure both a winning coalition and stability of the next government. At the same time, in almost every election cycle, especially the last 18 months or so, the economy and agriculture pick up to the previous growth rate. The internal alliances and shifting within regimes also affect development in the agriculture and agro-processing sectors.

As shown in Figure 2.2, there is a very close linkage between politics, economic and agricultural performance. For example, in the first multiparty general elections in 1992, economic and agricultural growth rates declined from 4.9% and 3.9% in 1990 to -0.3% and -3.7%, in 1992 respectively. During the 1997 general elections, a similar trend was repeated with a decline in both economic and agriculture growth from 3.5% and 6.5% in 1996, to 0.3% and -3.4% respectively in 1997. The same trend is observed in 2002 and 2007 general election periods. During the 2002 elections, the GDP and agricultural growth rates declined from 4.4% and 11% in 2001to 0.5% and -3.2% in 2002, while in the 2007 elections, the two indicators declined from 7% and 4.5% in 2007 to 1.8% and 2.5% in 2008 respectively. The 2008 declines were exacerbated by the post-election violence (PEV) that Kenya experienced following the disputed presidential elections results. One of the contributing factors to decline in both performances around the election times is the political uncertainty during elections.[9]

[9]For details see Poulton and Kanyinga (2014)

Figure 2.2: Trends in agricultural and economic growth (1988–2014)



Source: Economic Survey (various issues)

It is important to note that it is not the inclusivity, (or its absence), or even the nature or type of membership to any specific settlements that is important. Rather, it is the uncertainty brought about by the changing and shifting settlements that explain the rise and fall of performance. Thus, whether a specific set of candidates (in government or the opposition) is going to be elected is not the important factor, it is the uncertainty and other challenges inherent in Kenya's electioneering that explain these rises and falls in economic performance (Boone, 2011).

Overall, successive Kenyan regimes have either lacked specific employment policies or failed to fully implement existing policies. More important, no Kenyan political settlement has been formed to increase employment creation, rather employment is assumed to automatically benefit from such policies (ILO, 1995, 2013). The underlying premise has been that faster economic growth would, of necessity; lead to employment creation and that income generation through employment would lead to improvement in the standards of living and eradication of poverty (Omolo, 2010).Indeed, as Annex 1 shows, the overwhelming majority of policies in the agriculture sector between 1964 and 2015 did not address issues of employment creation, except the 1965-67 policy of Africanization of the public service and indigenization of the economy.

SECTION THREE

CUT FLOWER VALUE CHAIN

3.1 Introduction

Cut-flower production in the world gained importance in the early 20th century, especially after the Second World War II (Kendirli and Cakmak, 2007). Since then, rapid developments and changes have occurred in production, marketing, export and employment creation. In Kenya, production picked up in earnest in the early 1970's when Dansk Chrysanthemum and Kultur (DCK) established the first large scale flower plantation. In the 1980's another large-scale producer, Oserian, joined the business and by the early 1990s, small scale growers had begun growing cut-flowers. Over time, the cut-flower industry has undergone various changes in terms of production, marketing and export, which have implications on employment and employment creation in the country. This section examines the contribution of cut-flowers in promoting employment in Kenya. This has been done through an analysis of production, marketing, export and policies pursued in the Kenyan flower industry. Over 90% of the total cut-flower production is for export market.

3.2 Cut-Flower Farming in Kenya

Production of cut-flowers in Kenya has followed a process parallel to the developments in the world production of ornamental plants. The most important development was the establishment of DCK a Danish company, which in 1969took advantage of tax incentives that the Kenyan government provided and combined it with a large grant from the Danish government to establish the first large scale flower farm on 6000 hectares it had acquired from the Kenya government. In the 1980s, another Danish flower firm, Oserian invested in the sector. Over time, there has been increasing investments in the sector, with Kenya recording increasing growth fueled by good profits that investors have continued to reap.

Kenya produces about forty-five varieties of flowers, the most common being *roses, carnations, cut foliage, carthamus, solidaster, and chrysanthemums.* Different farms plant either a single variety or a combination of varieties. More than two thirds of exports are destined for Holland, where they are resold to florists through auctions. The rest go directly to consumers through supermarket chains abroad. Kenya's roses, carnations and summer flowers are sold beyond the traditional markets, Holland and the UK, to the rest of Europe, the United States, Japan, the Middle East and Russia.

Kenya's cut-flower farms are spread across several counties with Nakuru, (Naivasha Sub County) as the traditional growing area and in the Mount Kenya region. Other producing counties include Meru, Kiambu, Kajiado, Muranga, Machakos, Nyandarua and Uasin Gishu,[10]

[10]See also KHRC 2012; Omosa, Kimani &Njiru, 2006

almost all located within a radius of 200 km from Nairobi. The industry is dominated by foreign investors. Most of the indigenous flower farmers are small scale out growers with limited capacity.

Most of the cut-flowers produced by big farms are exported and only a small proportion is consumed locally. From the farm gate, the products are carried by people, donkeys and pick-ups to the grading houses, mostly within the farm. The graded products are parked and transported in lorries or pick-ups directly to the airport. Most of the vehicles used in the transportation of cut-flowers are fitted with refrigerated facilities. The two most widely used airports are Jomo Kenyatta International Airport in Nairobi and Eldoret Airport in the Rift Valley Province.

3.3 Processing and Export of Cut-Flowers in Kenya

Kenya's cut-flower industry can be categorized into large, medium and small-scale producers (Table 3.1), that utilize different farming technologies, including drip irrigation, greenhouses, net shading, pre-cooling, cold storage facilities, grading, fertilizer recycling systems to prevent wastage, wetlands for waste water treatment, artificial lighting to increase day length, grading/packaging sheds, and refrigerated trucks. Most of smallholder farmers produce in the open field.

Table 3. 1: Structure of Cut-flower producers

Category	Approximate Production Area	Typical Characteristics of farm
Large producer	Above 20 hectares of protected production (greenhouses) plus open fields. Sophisticated infrastructure and expatriate management (mainly of Dutch origin).	Manage own export operations. Diversified markets (direct sales to supermarkets). Large employers employing between 250-6000 staff.
Medium scale producers	5 hectares to 20 hectares of protected production (greenhouses) and open fields. Sophisticated infrastructure Produce mostly roses and open field flowers.	Own export and / or act as out grower. Sell through the auctions and limited direct sales. Employs approximately 100 staff
Small scale producers	Under 5 hectares. Grow mainly in open field flowers particularly summer flowers. Low input system with little investment	Act as out growers. Product sold through the auction. Mostly family labour.

Source: Updated from Blowfield et al., 1998

In contrast to the situation in the 1960s to 1980s when only five or less companies accounted for the bulk of cut-flower exports (mainly Sher Agencies, Oserian and Homegrown), presently there are over 2,650 producers growing cut-flowers in Kenya. Of this number, 150 are classified as medium and large,accounting for 60% of Kenya's flower exports,[11]while 2,500 are small-scale holders referred to as out-growers.[12] These out-growers are mainly indigenous smallholder farmers with less than five hectares of cut-flowers. Small-scale farmers mainly sell their produce to exporters who in turn supply the Dutch auctions rather than shouldering the risks and transaction costs associated with exporting.

Kenya's flower sector is closely linked with flower production in Europe, particularly in the Netherlands and is greatly influenced by the needs of European consumers and European civil society organizations, whose concerns for the environment and fair treatment of workers have been paramount. This is done through several standards introduced in to protect Kenyan producers, European consumers and the environment, and whose compliance has significantly increased the cost of production, particularly for small-scale farmers. This has significantly impacted on employment and employment creation in the sector as well. In the last decade or so, there has been a significant shift away from volumes and turnover to high quality and more value addition leading to more mechanization and better employee relations and skills.

Currently, flower production is one of the most sophisticated in the entire agriculture sector. Increasing production and marketing costs are driving away low-quality smallholder producers with serious implications on employment creation. Furthermore, inadequate access to credit and cumbersome nature of complying with the many constantly changing standards in the sector, have made smallholder producers uncompetitive. In attempt to protect small scale farmers, various exporters have stepped in to provide technical information. Small scale farmers in return sell their produce at a fixed contract to the exporters, who carry out individual market development programs. As part of their social responsibility strategy, some exporters and their European buyers are keen to include small-scale growers within the industry.

3.4 Marketing and Export of Cut-Flowers in Kenya

The marketing of flowers is done at three levels. The majority medium and large scale producers export their flowers directly to Europe and other destinations, most of which go to the Netherlands Auction. Second, new entrants in the business sell directly to supermarkets in Europe, where, due to the value addition through packaging, labeling and arrangements, fetch comparatively better prices. In the United Kingdom, supermarkets are the main retail outlets. Over 25% of Kenya's exported flowers are delivered directly to multiple supermarket outlets,

[11] International Federation for Human Rights 2008: 31; Dolan et al 2002: 16).
[12]KFC, 2015

providing an opportunity for value addition at source through packaging, arrangement, labeling, and bouquet production.[13]

There are over 60 destinations of Kenyan flowers. Holland is the biggest market for Kenyan flowers: The Dutch auction takes over 65% of Kenya flowers, which are redirected to other markets both in and out of Europe. UK is the second largest market at 25%, with Germany (5%) and France (2%) completing the list. Kenya is the largest supplier of flowers to the EU, supplying 30% of the market. Other more recent destinations include Japan, Russia and USA. Interestingly, most of the Kenyan flowers that are sold in the three markets are from the Dutch auction, not directly by Kenyan farmers.

Ethiopia, South African, Tanzania, Uganda and Zimbabwe are the emerging African producers of cut-flowers in Africa. While South Africa and Ethiopia are the other major producers, South Africa mainly produces flowers for the large domestic market. Tanzania, Uganda and Zimbabwe have not yet produced large enough quantities to rival Kenya's export markets. Only Ethiopia produces large enough quantities, most of it by Dutch farms. A 2011 technical Paper on the Global Competitiveness of the Kenyan Flower Industry still ranked Kenya the biggest and most competitive flower producer in Africa aided by a strong Euro, making its costs in Kenya shillings and the dollar low. Labor and energy costs are also low compared to other African countries. Thus, even with the several challenges the industry is currently facing, Kenya's export of flower is strong enough to withstand challenges from Ethiopia.[14]

Almost 80% of all cut-flower exporters are members of the Kenya Flower Council (KFC).[15] To export one must conform to several standards in the sector, including Kenya Bureau of Standards (KEBS) 1758, which was completed and launched in 2015. Export of cut-flowers to Japan, Russia and America has been limited by the lack of direct flights to these destinations.

Most of smallholder producers rely on marketing agents and middle men to reach the export market. The most notable marketing agency in Kenya was identified as the Kenya Flower Council (KFC). KFC also liaises, on behalf of the members with government and development agencies, media, trade bodies, unions and other nongovernmental organizations. To promote Kenyan flowers, Kenya Flower Council organizes Kenya Flower Days in different countries.[16]These are annual events that have so far been taking place in Holland, U.K. and Germany.There are exporters and local sellers who do not own any flower farms. With trade

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[13]All the farms in the study sell directly to the auction or to the supermarkets, and do not require much government assistance since they are already well established in the market.

[14]Milco Rikken, The Global Competitiveness of the Kenyan Flower Industry Prepared for the Fifth Video Conference on the Global Competitiveness of the Flower Industry in Eastern Africa, December 2011.

[15] Interview with Director KFC, November, 2015

[16]Interview with Director KFC, November, 2015

and export licenses, these exporters buy mainly from local smallholder producers and consolidate their local purchase for export. These consolidators have been blamed for the sub-standard flowers that occasionally end up in European markets or the products that do not meet many of the several standards in the flower sector. These consolidators are either part of an emerging cartel in the sector or are out to make quick returns and hence do not conform to KFC regulations.

Some cut-flowers are sold locally, mainly in Nairobi and Mombasa by street vendors and at floriculture shops in high/medium class shopping centres. Local flower vendors are the major outlet for the overwhelming flowers produced by the over 2000 small holder farmers, who have not been contracted by major flower producers or exporters. Unlike in the export markets where records are well kept and export volumes and values can be tracked, the size of the domestic market for cut-flowers is unknown.

Table 3.2: Export Volume and Values o Kenyan Flowers (1990 – 2015)

Year	Volume (Tons)	Change in Volume (%)	Value (KShs. B)	Change in Value (%)
1990	14, 425		0.94	
1995	29, 374		0.36	
1996	35, 212	20	4.37	20
1997	35, 853	2	4.90	12
1998	32, 513	-9	5.91	21
1999	36, 992	14	7.23	22
2000	38, 757	5	8.35	15
2001	41, 396	7	10.63	27
2002	52, 107	26	14.79	39
2003	60, 983	17	18.72	13
2004	70, 666	16	18.72	13
2005	81, 215	15	22.90	22
2006	86, 480	6	23.56	3
2007	91, 193	5	29.74	26
2008	93, 639	3	39.77	34
2009	117, 713	26	36.70	-8
2010	120, 221	2	35.50	-3
2011	121, 891	1	44.51	25
2012	123, 511	1	42.87	-4
2013	124, 858	1	46.33	8
2014	136, 601	9	54.60	18

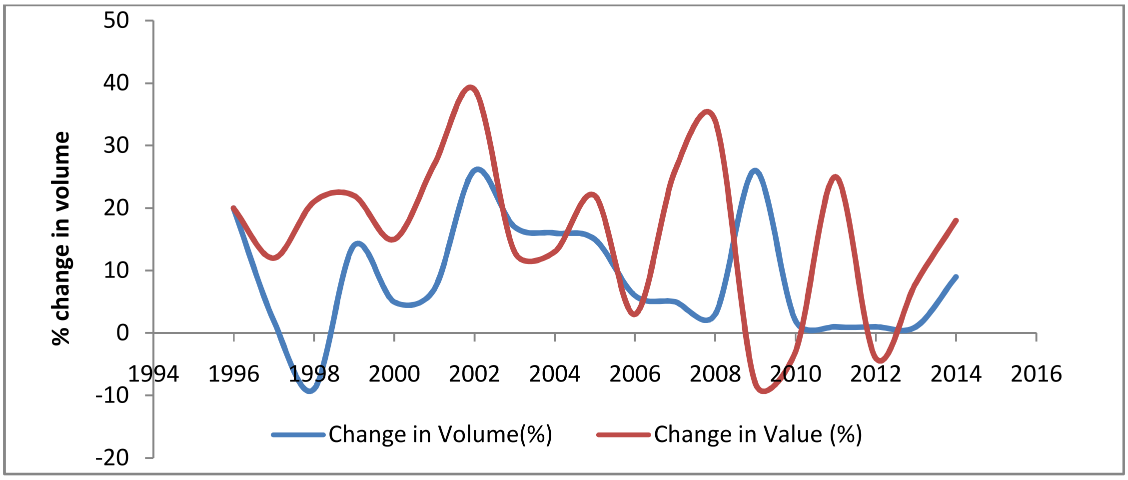
Source: Kenya Flower Council, 2015

The volumes of Kenya's export of flowers have increased tremendously, doubling almost every decade. For example, the volumes increased from 14,000 tonnes in 1990 to 38,000 tonnes in 2000, which further increased to 120,000 tonnes in 2010. By 2014, this had increased to 140, 000 tonnes. Earnings from the sector have also shown a major increase: from Kshs. 940 million in 1990 to Kshs. 8.35 billion in 2000. This increased to Kshs.35.5 billion in 2010, and in 2014, the value was estimated to be Kshs. 54.6 billion (Table 3.2).

According to vendors in Retail Market (popularly known as Marigiti), Nairobi, the domestic market for flowers can be divided into three: daily supply, weekly supply and "special" or "holiday" supply. Daily supply goes directly to consumers in super markets, shops, kiosks or at the various markets in the major cities. This also includes consumption in offices, where the government is a major consumer, banks and corporate clients, who get supplied daily, once or twice a week. Weekly supply market is mainly for wreaths and wedding decorations, "which in the last five or so years has become an important money-making sector" and its share of the market is increasing quite fast. Special and holiday demands involve some of the highest flower selling days and holidays such as Mother's Day, Valentine Day, Christmas and Easter period. Other special days include public holidays such as the Independence Day. These special days have given the local flower market a big boost.

There does not seem to be major variation in prices of flowers over time. As Figure 3.1 shows, there seems to be a direct relationship between volumes exported and values gained from the sector, in that values seem to increase as volumes have increased. The figure demonstrates increases in volumes have corresponded to increase in values. In general terms, over the two or so decades covered by the data, both volumes and values had an upward trajectory.

Figure 3 1: Percentage Changes in Volumes and Values of Export of Flowers 1994-2014



Source: Kenya Flower Council, 2015

Overall, however, values increased at a significantly slower pace than volumes. For example, between 1990 and 2014, while volumes increased ten times, values increased only six times. There have however been significant fluctuations in the volumes from year to year, such that even though there has been an upward mobility for volumes, prices have been fluctuating as well (Figure 3.1).

3.5 Employment Issues in the Cut-Flower Industry in Kenya

As already mentioned in chapter one, the six firms selected are in two major cut-flower producing regions: Naivasha and Meru. The majorityare not just in flower business alone; rather, they produced several horticultural products. Flowers were one of their production lines. In fact, out of the six firms, only one is a purely a flower producer. In the other five, flowers were neither the biggest production units of their business, nor the most important commodity they traded in.

Although each horticulture product line in these farms is run separately, there are employees who are co-shared, mainly in transport and accounts department. This makes it hard to clearly discern the exact number of employees in the flower sector. In all the farms, flower growing was disaggregated, where production was done by several different entities, enabling them benefit from economies of scale. For example, Finlays had different companies producing flowers in Timau, and others in Naivasha. Timaflor operated as four different farms: Timaflor 1, Timaflor 2, Timaflor 3 and Timaflor 4. Finally, the area under flower production by these farms was way less than the total land owned. In fact, the land under flowers is about 20% of total land owned or leased, meaning that they can expand production with ease, even though they have not done so for over five years.

Almost all workers in the flower farms in the study are permanently employed, because, as an informant stressed, "flower' production is specialized, requiring significant skills and experience." Exception for those who have not worked for six months, every employee has been confirmed to permanent status. All those in the sector who have completed their six-month probation get confirmed to permanent worker status, with full benefits.

Understanding what is happening to employment in the agriculture sector in general is important for understanding the importance of the flower sector in employment creation. Agriculture has one of the greatest potentials for employment. Unlike the general agriculture where jobs have stagnated or reduced, in the flower sector, employment has increased significantly over the years, making flowers, the largest contributor of new jobs in the agriculture sector. For example, while total jobs in the agriculture sector increased by 5,800 between 2005 and 2014, jobs in the flower sector almost doubled (from 59,873 to 92,000) and increment of about 33,000 jobs. This shows a significant decline in number of jobs in the agriculture sector except flowers.

The number of female jobs in the agriculture sector has taken a similar trajectory. Between 1999 and 2008, total employment for women in the agriculture sector increased by a paltry 9% (from 77,300 to 84,570) while those in the flower sector increased by more than 50%, moving from 30,808 to 48,883. In fact, as the Table 3.3 shows, without the flower sector, jobs in the agricultural sector would show a drastic decrease.

Table 3. 3: Total number of Employment in Agriculture and Flower Sectors (1999-2015)

	Total Employment		Females Employees	
	Agriculture	Cut-Flower	Agriculture	Cut-Flower
1999	311,300	44,012	77,300	30,808
2000	311,500	46,328	77,500	32,430
2001	311,700	48,767	77,700	34,137
2002	313,700	51,334	77,900	35,934
2003	316,000	54,035	78,500	37,824
2004	320,600	56,879	79,600	39,815
2005	327,500	59,873	81,400	41,911
2006	330,950	63,024	82,250	44,117
2007	335,550	66,341	83,410	46,439
2008	340,150	69,833	84,570	48,883
2009	344,750	73,509	85,730	51,456
2010	349,350	77,378	86,890	54,165
2011	341,400	81,450	107,200	57,015
2012	337,700	85,737	127,800	60,016
2013	342,500	90,250	124,700	63,175
2014	333,300	95,000	112,700	66,500
2015		125, 000		75, 000

Source: Compiled from Kenya Flower Council, (Various years)

The sector contributes at least a quarter of the workforce in the agricultural sector and is probably the only one in agriculture that has witnessed a significant growth in job creation and has a high potential for expansion and specialization.[17] The exact number of employees in the flower industry is not known. Industry experts, key informants and flower producers in the study put the current number at between 100,000 and 125,000. For example, Timaflor estimates the total acreage under flower production in Kenya to be 5000 hectares and assumes a conservative employment rate of between twenty and twenty five workers per hectare.[18] Further, for every person directly employed in flower production, there are either four or five employed in the industry indirectly.[19] PJ Dave assumes a figure of 10 employees per acre. Assuming there are 5,000 hectares (12,350 acres) of flower production in Kenya, this puts the total number to 123,500 employees.[20]

[17]KII, January 2016 in Timau
[18] Interview with Manager and owner, Timaflor, January, 2016
[19] Interview with General Manager, Siraj Flowers, January, 2016
[20]Interview with Acting Production Manager, PJ Dave, January 2016

This number of employees is consistent with previous estimates in the sector. In 2012 the total number was estimated at between 90,000 to 100,000 (Gitonga, 2013), which is about a 90% increase since 2004, when the sector employed just over 50,000 workers (English, et al, 2004; ETI 2005). Similar estimates have been provided by the Kenya Flower Council (KFC) and the Kenya National Bureau of Statistics (KNBS) who point to the sector employing over 500,000 Kenyans of whom 90,000 are direct flower farm employees (Veselinovic 2015) and supporting another 1.2 million Kenyans (Gitonga 2013) in auxiliary sectors such as transport, packaging and export areas.

Employment in the six cut-flower farms in the study presents a number of important characteristics, many of them reflecting the nature of the entire horticulture and agriculture sector in general. For instance, women dominate the flower production chain, including the management positions, which is consistent with other previous studies.[21] The percentage of women in the six firms ranged from 60% for Timaflor to 70% for Finlays. The large number of female workers in the flower sector stems largely from a rigid gender division of labour in which 'female tasks' constitute the majority of employment.[22] Women are concentrated in parts of the production process that are more labour intensive and that also hold the most significance for the cosmetic quality of the final product. These include picking, packing, and value-added-processing activities, which require intense concentration standing and bending for long.

The nature of the flower sector and the benefits offered to female workers seem to have a positive impact and to appeal more to women than men. Women, for example, are paid similar salaries to men, are given between three and six months paid maternity leave, and a further three to six months working half day with full pay. This is an important benefit that makes many young women stay in the flower sector.[23]

Employees in the flower sector are comparatively young, with over half of those in the sample (54%) being younger than 35 years. In fact, those older than 50 years accounted for about 1% in our sample. This contrasts much with the sugar industry where almost two thirds (61%) are over 36 years. Despite being young employees, the majority (63%) are married. About 85% have worked in the sector for less than 10 years.

As far as employment status is concerned there is a clear absence of casual workers in flower production. The overwhelming majority were permanent and pensionable employees. In the sample, 84% were permanent, while 15% were on contract. This means that less than 2% are casuals.

[21] See, for example Tallontire, et al, 2005
[22] KII, January 2016 in Timau
[23] Key Informant Interview, TF, Jan 2016

The farms under study indicated a change in labour strategy, within the last five years, from the use of low-skilled workers on repeated short-term contracts with minimal benefits, to a more stable workforce on permanent or seasonal contracts. This change has been driven by a combination of factors including: pressures exerted by civil society organizations and code of employment provisions that discourage the use of temporary labour; the quality imperatives of the European market that necessitate a more skilled, trained workforce to perform value added processing and year round production with less seasonality in production cycles.

On a comparative note, the flower sector average wages and benefits are higher than government average minimum wages and the rest of the agricultural sector. Wages in the flower sector are also "commensurate" with qualification, training, responsibility and experience. Gender does not seem to significantly affect wages. According to the six producers in the study, flower farming is significantly more profitable, and employs far more workers per hectare than farming of traditional crops such as maize or beans.[24]

Furthermore, salaries of those in the sample were much higher than the rest of the agriculture sector, although they vary quite significantly. Even within the same farm, salaries vary significantly. The average monthly salary is just about 14,500 shillings (about US$ 140). Even though this is little, most employees, (79%) do not have another source of income. For example, only 21% of employees had other jobs to supplement the income from working in the flower sector. Of these, more than 80% are in subsistence farming. Many of them are however optimistic that their lot will change when they get promoted. Of those in the sample, 60% expected to be promoted. Of these, almost three quarters expect the promotion to be on merit when a position is available. Thus, only 14% of those in the sample were looking for another job.

Majority of workers have acquired skills relevant to the industry, much of it acquired within the farm. This means that training of employees is an important aspect of the selected farms. Over 75% of the sampled employees claimed that the skills that they have relevant for the industry were acquired through internal training. This is not surprising as those in the industry are relatively well educated, with almost 55% of the sample having at least a secondary school certificate. In fact, 13% of total employees in the sample have either a college diploma or university degree. Similarly, over 83% consider the current job a "*good one*" with 62% intent on keeping their current job, 18% of them only if they get the promotion they are waiting for. The reasons why they consider their current job a *good one* include: good salary and benefits (53%); ability to meet their family needs (20%); and, prospects of promotion (20%).

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[24] This is supported by previous studies. According to English et al (2004), while a hectare of beans and/or maize gives a return of between Kshs. 20,000 and Kshs. 25,000 per year, for horticultural products such as French beans or flowers, the return is four times more or about Kshs. 120,000.

Interestingly, not many workers belong to a workers' association or union, either within the company or a national one. Asked whether they belonged to any association within the firm, only 29% of employees belonged to an association within the firm, while 19% belonged to a trade union. Even though many recognized the advantages or benefits of belonging to such associations—to get education and development loans (78%); gain welfare benefits (11%); to settle grievances (11%), not many belong to them. This might be because even with such low membership of associations, employees have many benefits, including bonuses (56%), and house allowance (92%). Other allowances include: car allowance, training allowance, leave allowance, extraneous allowance, and out of station allowance. Over 60% were optimistic that they would be promoted.

Since almost all flower growing areas are in regions that confess to Christianity, the overwhelming majority of workers (97%) are Christians. The ethnic composition of the workers is however, more varied, even though many of the workers in every region are from local communities. The Meru (41%), Kikuyu (29%), the Kamba (12%), the Embu (7%), and the Luhya (7) are the majority ethnic groups. The 7% Luhya workers is quite interesting since none of the flower farms in the sample was in any county populated by the Luhya. Indeed, no Luhya county is known for flower production. This goes to show how mobile labour is in the flower sector.

Increasing competition and need for high quality are forcing mechanization, investment in cutting edge systems and management and employee specialization in the industry. Increased demand for skilled labor is also forcing farm managers and owners to provide incentives and treat employees with respect to retain them. This was confirmed by one of the managers interviewed:

> *Retention of employees is also high. I get very sad when someone resigns. We encourage long-term employment. We reward them for staying long. Every 3 years a bonus of half a salary. Five years a full month's salary.*

A "strong" family approach to flower farming has also developed: The various heads of farms in the study viewed employees in terms of "our big family", where they take care of each other "just as members of the same family do". The owner of one of the largest producers of flowers said that he resolves employee problems "just the way a father would of his family," driven by three main considerations: Is the problem so serious that it cannot be corrected? Is it so serious that the victim will feel victimized more by the perpetrator's presence? Is the victim willing to forgive?

The managements of all the cut-flower farms in our study were also happy with their employees' performance. None of the managers interviewed complained of any high employee turnover, employees lacking skills or being lazy! None complained of employees' poor work ethics either. All firms talked of having very good relations with the employees. The good relationships exhibited between employees and the management of flower farms is born out of the fact that both owners and workers come from or live around the flower producing region as pointed out by a key informant:

> *We employ from this community; they are our neighbors. We cannot be firing them at will; we cannot underpay them. We cannot treat them badly either. They are part of our community. When they are happy, we are happy. When they are happy we make more profits...the community is happy.*

3.6 Challenges of Employment Creation in the Flower Industry in Kenya

Four things have happened in the flower sector, which have impacted on employment. The first is a drastic increase in labor costs, which have necessitated mechanization, efficiency and effectiveness. The increasing costs of labor have forced large scale producers to mechanize and automate most of their activities.

The second is an improvement in employee skills, which is matched by improvement in tasks undertaken leading to a per capita improvement in employee performance, both of which have reduced the number of employees required in the sector.

A third important thing happening in the sector is that it has "almost peaked." This is mainly due to stagnating demand, but also as a result of the growing number of large-flowered roses grown in Africa and the generally improving quality of the African products.[25]Until the late 1990s, the export market was majorly driven by quantity. The business of flowers was driven mainly by ornamental consumers. When prices were low, producers made it up by exporting more. Currently, the business has changed significantly. The major drivers of the industry are not just consumers, but environmentalists and other civil society organizations concerned with treatment of employees, of the environment and the chemicals used. The market has become highly regulated and quality driven.

Fourth, and as several key informants noted, flower farming is no longer the "quick money maker" that it once was. According to both Finlays and Timaflor, for long, flower production used to be "a politicians' paradise", where they invest to either sanitize illegally acquired money or for easy and quick returns. However, while Timaflor believes this was good for the

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[25]Milco Rikken, The Global Competitiveness of the Kenyan Flower Industry Prepared for the Fifth Video Conference on the Global Competitiveness of the Flower Industry in Eastern Africa, December 2011.

flower sector, since it brought in more investments, inputs and political muscle which increased production and employment; for Siraj Flowers, “this brought in non-farmers, joy riders and jokers, who have created the impression that flower farming is for joy-riders”. To him, this has been bad for the industry and bad for job creation. There is evidence of a significant presence of key political figures and retired senior public servants who have invested in the flower sector. Interviews with the officials of HCDA seem to support both contentions—while there are genuine political investors in the flower sector, others are part of what one officer described as “briefcase” investors.

Both TimaFlor and Kisima growers argue that the majority of flower growers in Kenya, and unfortunately those who make decisions in the sector as well, are not professional agriculturalists. Majority are “politicians, bankers and MNCs” who do not understand the intricacies of flower farming.[26] The average Kenyan agriculturalist is left out because of the initial costs, which unfortunately the government is unwilling to absorb, even when it can easily do so. As a result, the sector is not fully utilizing its potential. The policies being made are therefore not fully supporting employment creation. The upper echelons of the flower industry have instead become part of what the Chief Justice calls “bandit economy,” where non-producers have the majority of export licenses and flower farms collapse within the first “cycle of production”[27] taking with it the jobs created.

To Timaflor, the solution to Kenya’s unemployment in the agriculture sector lies with the Kenya government. The government would need to set aside 1000 hectares, divide it into 50 hectare pieces, prepare it, make it ready and ensure it has water, and negotiate with banks on behalf of investors so that when an investor arrives, he can be given a functional 20 hectares’ piece of land. If government did this as Ethiopia does, “we will be able to beat Ethiopia” because Kenyans are more hard working. Kenya has a lot of idle land but it is not well managed. A foreigner or investor cannot have access to it as soon as he needs it. Government assistance in getting land, water, and other essential things is quite limited.

Understanding the changing nature of the flower chain is also important to understanding the challenges of increasing employment. The sector has become so quality driven that heavy investments in technology, packaging and marketing systems have been done at the expense of expansion. This, together with “intensive hands-on” training has produced a more efficient worker than before reducing employment as observed by one of the key informants:

[26]While this might be true, the fact of the matter is that flower farming is a business run by professionals, even though the ownership might not reflect that much knowledge of the technical aspects of farming.

[27]This is normally three to five years

Technology, constant training and establishment of functional systems have increased worker productivity… today skills, not the number of employees determine productivity. Quality is the force driving flower production today not quantity

From the foregoing, increased employment can only be assured with new investments, which are not forthcoming owing to the reducing/stagnating profitability in the sector and initial high investment costs. Three of the firms in our study had an initial investment of over a million Euros. According to another producer, initial costs of starting a flower farm average US$ 100,000 per acre and one needs at least five acres to be economically viable.[28] However, while this is almost 10 times cheaper than in the Netherlands, it is more than double that of Ethiopia.[29]

To Magana Flowers, employment creation lies in increased acreage, which cannot easily be done unless more growers come into the sector. Unfortunately, initial costs of production, product specialization and the mastery of the sector required for successful production are so challenging that ordinary and smallholder producers can hardly survive. The same problems have prevented many from joining the sector. Furthermore, other key informants and growers agree that the absence of employment specific government policy is the greatest hindrance to new investments and increase in employment. Asked why agriculture is not employing many people, one producer argued as follows:

Mainly the lack of vision by the government. In five years Ethiopia has grown in about 1500 acres in flowers. If a foreigner wants to grow flowers in Addis, and goes there, at the airport when he lands he'll find somebody there, a government officer with all the information, he will be provided land, money, water, name it. Come to Kenya, there is nowhere to go. If he goes it alone, finds someone to help him, it will be an individual who will rip him off.

While the above was true in the 1990s and early 2000, government support for the Ethiopian flower sector has drastically reduced and the sector seems to be facing similar challenges as Kenya's. Referring Ethiopia as the newcomer among the big boys of global floriculture, a World Bank Technical Paper[30] looks at Ethiopia's flower sector, which until 2004 was "not significant" sector in the country. However, seven years later, the sector had 1,600 hectares under flower production, making floriculture one of Ethiopia's main export sectors. According to the paper, the Ethiopian government

[28] Interview with a director of KFC who is also a flower farmer and exporter, October, 2015
[29] Interview with a producer who has been in Kenya's flower sector since 1971.
[30] Milco Rikken, (2011) The Global Competitiveness of the Kenyan Flower Industry

was key to this development. Wages were also low, considerably lower than in Kenya, while the Dutch government also contributed to the development of the sector.[31]

However, as the paper notes, the enormous growth in production did not come easy, soon government strict regulations and other restrictions concerning repatriation of foreign exchange earned on exports have slowed down the sector. Other problems include lack of adequate pesticide, weak phytosanitary inspection and failure to protect breeders' rights (Gebreeyesus 2009). Just like the other countries, Ethiopia's young sector was also hit by the economic crisis, in which several companies went out of business or were taken over by the bank. New local companies lacked knowledge and experience in the cultivation of roses to counter the difficult times. Today, only a limited number of firms sell directly to wholesalers and supermarket channel. Few rose growers have developed their own marketing or partnerships arrangements in the export markets (GDS 2011).

This brief reflection on Ethiopia reveals the effect of government intervention on the Ethiopian flower sector. In Kenya, the farmers and farm managers identified government failure at four levels:

1. **Absence of a targeted government job creation policy in the flower sector**: Despite recognizing the centrality of the sector and its employment creation potential, the government has maintained a policy of "active neutrality" and has not done much to increase employment or facilitate job creation in the flower sector. Instead, it has left it to be driven almost exclusively by private interests. According to key industry players[32], and admission of government officials in the Ministry of Agriculture[33], the government has "not yet developed a specific job creation strategy in the sector" other than creating an enabling environment for the industry to operate smoothly.

2. **Lack of incentives or support to new investors**: To the growers in the study, the government has failed to put aside clear incentives to increase production. The government has not for example set aside developed land for those with investment capital similar to Ethiopia's.

3. **Failure to open up new markets hindering job creation**: According to officials of the KFC and HCDA, flower farmers can double or triple their production within a few years, yet the government has not aggressively gone out to open the export market. The finalization of direct flights to the USA and Russia will open up new markets.

4. **Failure/absence of government extension services:** This is limiting potential for employment among over 2,500 smallholder farmers. Initially these smallholder farmers were so important that the government initiated a nationwide network of trained and

[31] Milco Rikken, (2011) The Global Competitiveness of the Kenyan Flower Industry

[32] Interviews with officials of the Kenya Flower Council and the Horticultural Crops Development Authority 2015

[33] Interview with Director Agriculture, Ministry of Agriculture, Nairobi

well facilitated extension farming services to advice farmers on better farming methods and techniques, seeds, pesticides, fertilizers, marketing, storage; and, act as an important link between farmers and the Ministry of Agriculture officials and the government. In the last two or so decades, these extension services have ground to a halt in the entire agriculture sector.

5. **Failure of County Governments to Improve the Sector**: According to flower farmers, county governments hardly provide flower farms with support of any kind. Instead it is flower farms that support the county governments in road maintenance, provision of services such as water, hospitals and schools. Each of the farms has either constructed a school, dispensary, classrooms or contributed to their running. All are members of the community policing and development and contribute significantly to community projects including: police vehicles and community grinder; repairing community roads, hire and pay for community teachers and nurses.

In conclusion, the recent constitutional devolution in Kenya does not seem to have significantly changed this deleterious approach to agricultural support by the central government. Agriculture has also been devolved, which might provide both opportunities and challenges. With the national government removed from the sector except for policy-work, the government might either completely withdraw from the agriculture sector leaving it to the counties, or might invest more to outcompete the counties. The government seems to be committed to finalizing the deal that will allow for direct flights to the USA. Once this is finalized, it will open up North America for Kenyan flower farmers. The government however, seems to be lagging behind in the provision of incentives for expansion in the flower sector and for the revival of the extension services that had made the sector prosperous in the 1970s and 1980s.

SECTION FOUR
THE SUGAR VALUE CHAIN

4.1 Introduction

The sugar industry in Kenya is an important sector in so far as it encompasses several linkages to the local economy and domestic market it operates in. The industry is strategic for employment creation as well as backward and forward linkages with other sectors of the economy such a manufacturing (Chisanga et al. 2014). Like in other parts of the world, sugar industry in Kenya has for a long time been dominated by government shareholding and over 80% of sugar production is consumed within the country. This makes the industry political as well as a strategic.

In Kenya for example, the sugar industry is a source of livelihood to over six million people (KSD 2015). The industry is intricately woven into the rural economies of most areas in Western Kenya, Nyanza region, Rift Valley, and Coast region where industrial sugarcane is grown.[34] The sugar industry contributes about 7.5% of the agriculture GDP (Kenya, 2008). Besides offering employment, the industry is strategic in helping rural infrastructural development. Some estimates indicate that in 2014, the sugar industry was supporting approximately 250,000 small-scale farmers who supply over 92% of the cane milled by the sugar companies (Kenya Sugar Board, 2015). The remainder 8% of sugar cane processed is supplied by factory-owned nucleus estates whose acreage is 12% of area under sugar cane (Kenya Sugar Board, 2014; Kenya National Assembly 2015).[35]

In addition to its socio-economic contributions, the sugar industry also provides raw materials for other industries such as bagasse for power generation, molasses for a wide range of industrial products and ethanol. Molasses is a key ingredient in the manufacturing of various industrial products such as beverages, confectionery and pharmaceuticals (Kenya Sugar Board, 2014). By all standards, sugar is one of the most highly traded commodities. It is considered a political commodity because of vested interests that politicians, traders and analysts attach to sugar. The sugar value chain (production, processing and trade) is guided by the Sugar Act No. 10 (2001), the Sugar (Amendment) Bill (2011), the Crop Act of 2013, and the Agriculture, Fisheries and Food Authority (AFFA) Act No. 13 of 2013. Figure 4.1 demonstrates the layout of the sugar value chain in Kenya.

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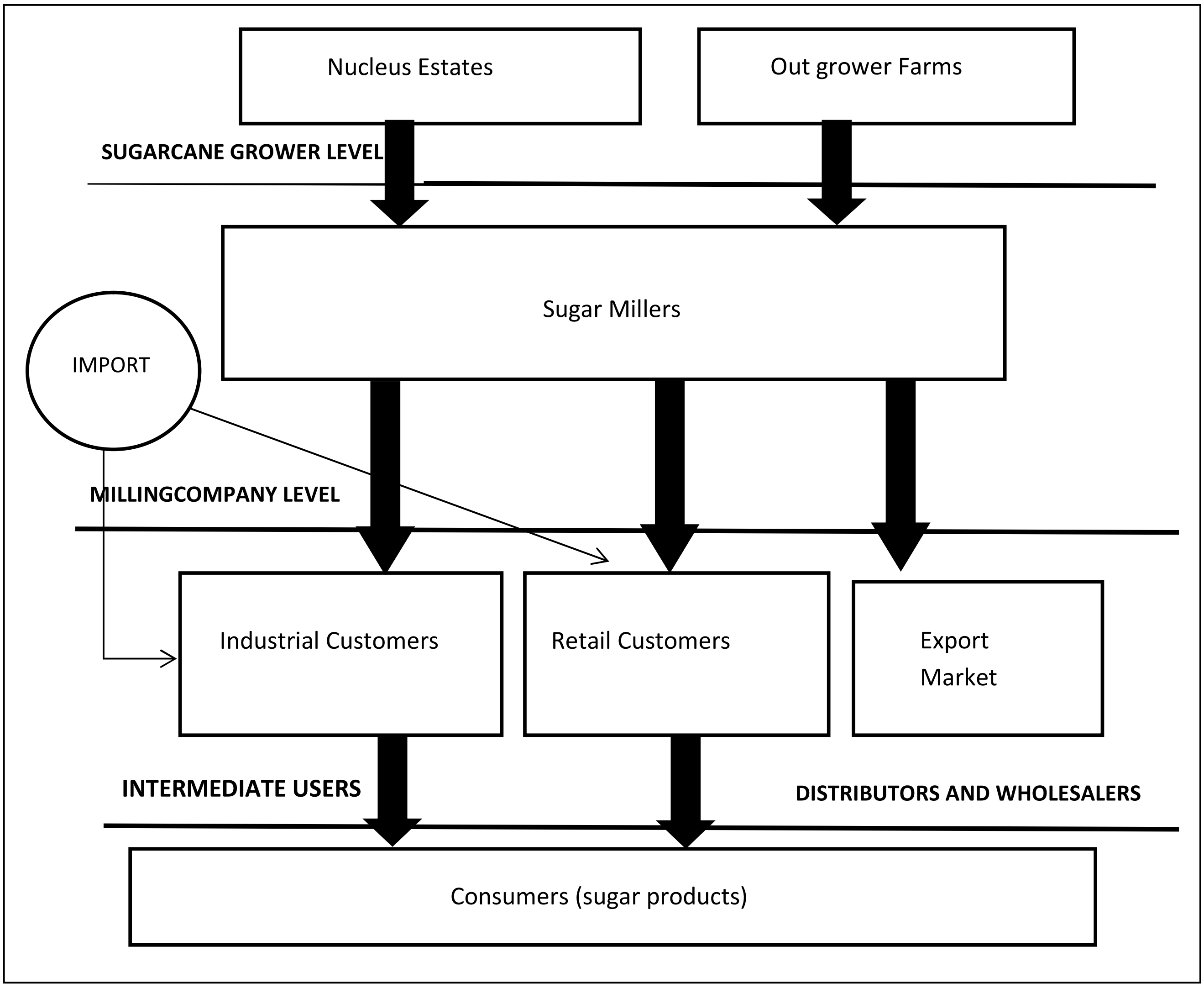
[34]According to an interview with Kenya Sugar Directorate – CEO (23rd September 2015) *'the largest contribution of sugar industry is in its salient contribution to the fabric of communities and rural economies in the sugar belt'.*

[35]According to the Sugar Act (2011), for a miller to be licensed by the Sugar Directorate to process sugar, it must demonstrate that it has its own sugar cane farm, otherwise known as the nuclear farm.

Figure 4.1: Sugar Industry Value Chain



Source: Adapted from Chisanga, et al. 2014

The sugar value chain can be analysed at two levels: (1) the sugar cane growing (agriculture); and (2) the sugar milling and trade (agro-processing) in line with the objectives of the study. In section 4.2 we examine issues of sugarcane farming, while in section 4.3 we focus on sugar processing and trade. In section 4.4, we turn to the issue of employment in both sugarcane farming and processing and some of the challenges that the industry faces in creating productive employment.

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[36]COMESA is a preferential trade area among nineteen African countries in Eastern and Southern Africa. Under the COMESA Treaty (Protocol) member countries accord each other trade preferences in a number of goods so as to promote intra-regional trade. Sugar is one of such products that most member countries have interest in.

The sugar value chain (production, processing and trade) is guided by the Sugar Act No. 10 (2001), the Sugar (Amendment) Bill (2011).[37]Under the Act, there are various institutions which are involved in the value chain namely, the Government of Kenya through the Ministry of Agriculture, Kenya Sugar Directorate(formerly Kenya Sugar Board), Kenya Sugar Research Foundation (KESREF), Kenya Sugar Manufacturers Association (KSMA), Kenya Sugar-Cane Growers Association (KESGA), Sugar Parliamentary Committee (SUPA), Kenya Sugar Millers – Jaggeries- Association (KESMA), Sugar Arbitration Tribunal (SAT), Cane Growers/Out-growers Institutions, and Cane Transporters. Other stakeholders include distributors, importers, financial institutions, consumers, Kenya Society for Sugarcane Technologists (KSSCT), and Sugar Campaign for Change (SUCAM). These actors play different roles with an objective of promoting the sugar industry in Kenya.

4.2 Sugar Cane Farming in Kenya

Cane production is the first stage in the sugar value chain and it has strong bearings on costs and the availability of sugar in subsequent stages in the chain. Sugar is produced in a sugarcane mill when cane juice is extracted from sugarcane through the cane crushing process to produce raw sugar (Chisanga et al. 2014). Sugar cane is a low value, high volume and bulky crop. High quality cane has good juice content with high sugar levels. The efficiency with which juice is extracted from the cane is limited by the quality of cane delivered, duration it takes to deliver the cane and the technology used by the mills.

Most of the sugarcane farming is done in Western Kenya, Nyanza and parts of Coast region. Sugar-cane is a coarse perennial grass of the tropical world. It has tall stout canes that grow to a height of about three metres and yield sugar. In Kenya, cane growing on a commercial scale began in Miwani and Kibos areas of Kisumu and Ramisi in Kwale District between 1902 and 1930, respectively. The early sugarcane estates were operated by Asians. After independence, the government began large scale sugar projects in Nyanza and Western provinces in an attempt to meet the growing local sugar demands which were being supplemented by imports from Uganda. The government explicitly moved to expand sugarcane production through investments in sugarcane growing schemes. This was in line with the Sessional Paper No. 10 of 1965 to address unemployment which was then identified as a major constraint to

[37]As a directorate, the Kenya Sugar Directorate is not a body corporate with perpetual succession and a common seal capable of suing and being sued (currently vested with the AFFA). However, it is in charge of regulating, developing and promoting the sugar industry; licensing sugar millers & jiggery, coordinate the activities of individuals and organizations within the industry; and facilitate equitable access to the benefits and resources of the industry by all interested parties.

development. This was also in line with the strategy of increasing socio-economic activities in the rural areas (KSB, 2009:30).

Sugar cane farming is rain fed and is grown in fairly flat regions such as Nyanza, Kisii, Siaya, Mumias, Nzioa, Bungoma and Coastal regions. In growing sugar cane, the land is first cleared, ploughed and then re-ploughed. Harrowing of the ploughed field is done followed by planting. The plants are regularly weeded and gapping done in initial stages. Later on very little work is done on the farms as the crop grows. Harvesting is done by hand after 18 months using a sharp machete *(FGD cane farmers, November 2015)*.The cane is loaded onto a truck and quickly transported to the factory to preserve the quality of the sugar.

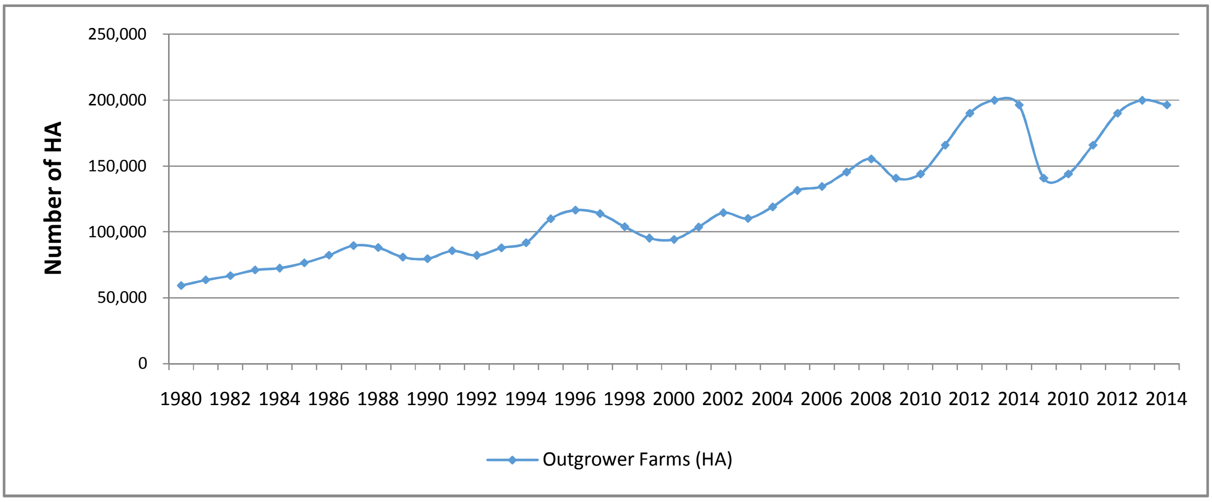
In the sugar value chain, the term 'grower' is used to refer to any person who produces sugar-cane or any scheduled crop for the manufacture of sugar. The upper stream level of the chain has two types of growers – nuclear and out-growers. A nucleus estate is where the miller farms their own land and produces their own sugar cane whereas out-growers are independent farmers that produce sugar canes and sell it to millers (Chisanga 2014:6; Kenya, Sugar Act 2001:722). For a miller to be licensed to crush cane, they are required by law to demonstrate that they have their own farms from which they grow cane. The farms owned by millers are called nuclear estates. Sugarcane growers are classified as smallholders if the land committed to sugarcane faming is less than five (5) HA, otherwise, they would be classified as a large-scale farmer. A miller is a person or firm that is licensed to operate a sugar mill or a jaggery mill in Kenya for the production of sugar including refined sugar and other by-products.

Most of the cane farmers are small scale producers and engage with millers as out-growers or through, out-grower institutions such as cooperatives, trade unions or registered associations (Chisanga et al 2014). These institutions are supposed to provide important services both to farmers and millers but in the past have largely failed to perform their functions. This has left sugarcane farmers without a voice and at the mercy of milling factories and the market. Our interviews revealed that there are, new cane farmers, federations coming up but they are also weak and farmers do not trust the institutions because of their past experience with associations which collapsed with their money. Sony Milling Factory was supporting farmers to revive their associations by organizing forums and farm tours to sensitive farmers to articulate their issues. The firm was also working towards developing an MOU with farmers which was in draft stage. The revival of cooperatives and federations was attributed to the on-going privatization of the milling factories.

In the absence of strong associations, individual farmers operate on their own or under contract with specific milling factories. The latter are supposed to operate in an efficient manner with millers providing inputs, collecting their cane and paying farm gate price, minus inputs and transportation cost. Apart from such farms, the millers also have nucleus estates where they grow their own cane for milling. Labour which is important for both cane farmers and millers is provided through individual informal agreement with farmers or through sub-contractors of labour. The latter is prevalent in milling factories.

The total area under cane in the country presently is 203,730 Hectares, comprising 189,390 HA belonging to out-growers and 14,340 Hectares Nucleus Estates (Kenya Sugar Board, 2014). Of the 250,000 sugar cane farmers, only 4,500 are large scale (*KII with KSB 2015*). As shown in Figure 4.2, the area under sugar cane farming has generally been on a steady increase.

Figure 4. 2: Area under Sugar cane Farming by Out-growers in HA 1979 -2014

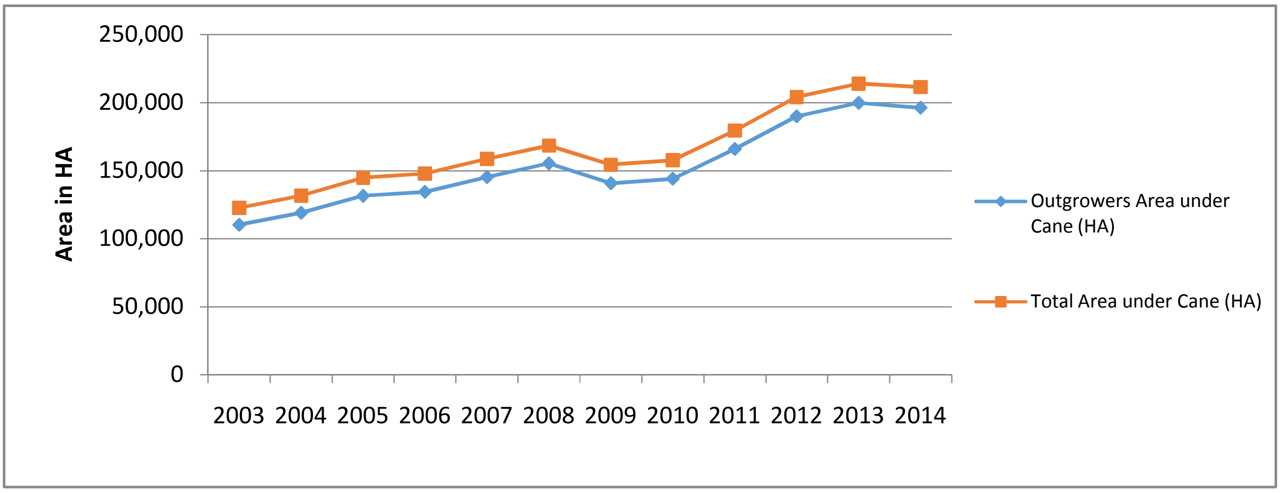


Source: Kenya Sugar Board Annual Report (various issues)

Overall, the area under sugar cane managed by out-growers has gradually risen over the past decade by 74% to reach 196,229 HA in 2014 from 131,392 HA in 2005. As shown in Figure 4.2out-growers area under cane grew from 59,304 HA in 1979, to a high of 116,415 HA in 1996. There was a drop between 1997 and 2000 reaching 94,249 HA in 2000. After 2000, the acreage under sugar farming started increasing steadily to 143,921 HA in 2010 and to 196,229 HA in 2014. Between 2010 and 2014, the growth in out-growers' area under cane was 36percent. This can be attributed to the deliberate actions by the government to revive the sugar industry as one of the flagship projects under the Vision 2030. The government through the Ministry of Agriculture has been keen in addressing some of the challenges that sugarcane farmers face (*KII, Mumias Sugar Company 6th November 2015*).

Similarly, when we look at total area under cane (combining out-growers and nuclear estates), there has been a steady growth from 144,765 HA (2005) to 211,342 HA (2014) (Figure 4.3). The growth in total area under sugar cane between 2005 and 2014 was 46 percent. In Figure 4.4 we compare area under out-growers and that under nuclear farms and we can clearly observe the dominance of out-growers in the sugar cane farming whereby some estimates have indicated 90%.

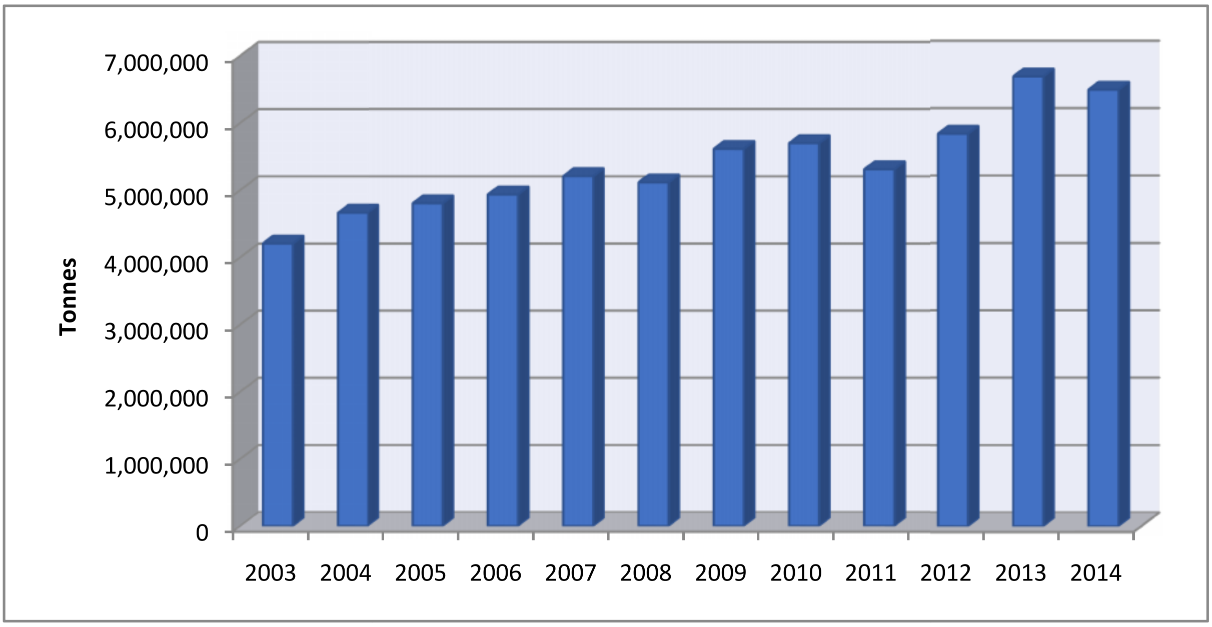
Figure 4. 3: Area under Sugar Cane Farming in HA 2003 -2014



Source: Kenya Sugar Board Annual Report (various issues)

Turning to sugar cane production, Figure 4.4 demonstrates that production has grown steadily between 2003 and 2014. In 2003 for instance, the sugar cane production was 4,204,055 tonnes, while in 2014; the production was 6,477,651 tonnes representing a growth of 54per cent.

Figure 4.4: Area under Sugar cane Production in Kenya 2003 - 2014



Source: Kenya Sugar Board Annual Report (various issues)

For the same period (2003-2014), the average annual yield per acre was 65 tonnes, which oscillated between 51 tonnes per acre to 74 tonnes per acre. Between 2012 and 2014, the yield per hectare increased by 22% from 51 tonnes per hectare to 62.4 tonnes per hectare. This improvement was mainly attributed to improved cane harvesting, yielding higher weight and sucrose content (Economic Survey, 2015).

Generally, sugar cane farming is a labour intensive venture with most of the activities from planting, weeding, pruning and harvesting done manually. For instance, Sugarcane harvesting alone requires an average of 71 man-days per year (KSB, 2010).Sugarcane must be transported to a processing facility within hours of harvesting to avoid spoiling- making transport one of the most crucial and expensive activity in the sugar cane value chain. This is compounded by the fact that sugarcane is a bulky crop, which makes it more expensive to transport. Although factories arrange for transportation, the cost is finally borne by the farmers by deducting cost from the producer price paid to them at farm gate. More worrying is the fact that farmers more often than not do not have real control on transport modes and costs.

4.3 Industrial Sugar Milling and Trade in Kenya

At the middle level of the value chain there are millers (see Figure 4.2). Their work in the value chain is to crush cane supplied by either out-growers or nucleus farms into sugar. As mentioned earlier, the sugar cane farming in Kenya was introduced in 1902 but it was not until 1922 that the first sugar mill (Miwani Sugar) was established. In 1927, a second factory

(Ramisi) was established in the Coast region. After independence, seven other sugar factories were established: Muhoroni Sugar Factory in 1966, Chemelil Sugar Factory in 1968, Mumias Sugar Company in 1973, Nzoia Sugar Company in 1978 and South Nyanza (SONY)-Awendo in 1979 (KSB, 2014, Kegonde, 2005). Later on, privately owned factories were set up which included West Kenya Sugar Ltd (1981), Soin Sugar Ltd (2006), Sukari Ltd (1990), Butali Sugar (1995), Transmara Sugar (2001) and Kibos Sugar & Allied Industries Ltd (2007) (Table 4.1).

Table 4. 1: Sugar Cane Millers/Factories in Kenya 2015

Government owned Factories	Private owned Factories
1. Mumias Sugar Co. Ltd -1966	1. Kibos& Allied Sugar Co. Ltd
2. Nzioa Sugar Co Ltd - 1978	2. Butali Sugar Co. Ltd
3. Sony Sugar Company - 1976	3. Soin Sugar Co. Ltd
4. Muhoroni Sugar Company - 1964	4. West Kenya Sugar Company Ltd. – 1979
5. Chemelil Sugar Company Ltd - 1965	5. Transmara Sugar Co. Ltd
	6. Sukari Industries
	7. Kwale International Sugar Company Ltd (KISCOL) - 2013[38]

Source: Field Data 2015

The Kenya Sugar Board (KSB) had by 2015 licensed 12 sugar millers, five public-owned and seven privately owned factories (see Table 4.1). The government has remained a major shareholder in all public owned factories which collectively account for more than 75% of total sugar production in Kenya.[39]Mumias Sugar factory which is one of the largest sugar factories in Kenya was privatized in 2006, with the government reducing the ownership to only 45% of total equity. At the time of privatization, *"Mumias was the most efficient sugar factor with a strong brand. However, after privatisation its performance declined significantly casting doubts about the privatization strategy in the sugar industry"* (KII, Kitale on 6th November 2015).

The state owned millers have not been efficient at collecting cane at farm gates and paying farmers. This discouraged farmers from cane growing and in turn affected production and the generation of employment. The entry of private millers which are comparatively competitive

[38]KISCOL a private company backed by Mauritius successful player – Omnicane and a strong financial backing began the journey to cultivation and production of sugar in 2010-2011. KISCOL, is owned by Mauritius-based firm Omnicane and is building a multi-million integrated sugar factory in Kwale. The firm is expected to produce over 80% of the sugar cane (under nuclear estates) while the rest will be produced in partnership with local authorities. KISCOL is yet to place its own products on the shelves, but analysts argue that it may change the sugar value chain in Kenya, when production commences.

[39]Unfortunately, due to mismanagement, Ramisi Sugar collapsed in 1988 while Miwani was put under receivership in 1990. Kwale International Sugar Ltd, currently operates in the premises that belonged to Ramisi Sugar Ltd.

and better at collecting cane and paying farmers is changing the dynamic of cane growing, including triggering renewed interest in growing cane. This is because farmers are assured of an efficient market including employment in the sector. This has resulted in increasing number of cane growers, employment and productivity in the sector. This finding is also supported by data showing that the area under cane production has been increasing since 2000 when private millers began penetrating the industry.

Installing new technology and building capacity of milling factories has ripple effects of expanding production, employment and acreage of cane farming. This is already being realized by the private firms who have come in with new milling technology and efficient ways of transporting cane from farm gates to the factories. State owned factories are also struggling to embrace new forms of management including sub-contracting labour to avoid directly dealing with labour. The firms are restricting direct hiring of personnel to management staff and small number of support staff working in the areas of loading processed sugar to lorries and working in ware houses. This leaves the sub-contractors to deal with the labour force charged with weeding, harvesting and transporting cane from farm gates to factories. It was observed that directly dealing with farm level labour force exposed millers to many challenging and protracted labour issues and court cases, which diverted firms from concentrating on specialized production areas.

Cane milling in Kenya has been a state venture, and like other state enterprises state owned milling factories have not been efficient. They lack modern milling technology and operate below capacity, sometimes halting, suspending production or being put under receivership. In such situations the state bail out the firms through financial support without addressing issues of capacity, including technology and required efficiency. The state and related agencies play a central role in the sugar industry, with the Directorate of Sugar being responsible for regulations, and promotion of the sector. Our findings reveal that the regulator (KSB) has partly been part of the problem to the industry, because of licensing private cane millers without following due process. The regulations provide zones of operation of millers which should not be within 40 kilometres radius of another miller. However, our interviews indicate that many private competitors do not fulfil this requirement, while others fulfil the requirement but invade zones allocated to other millers. This dynamic is destabilizing the industry and causing friction among farmers and millers, especially in cases of poaching of cane whose growing has been supported by another miller under contract.

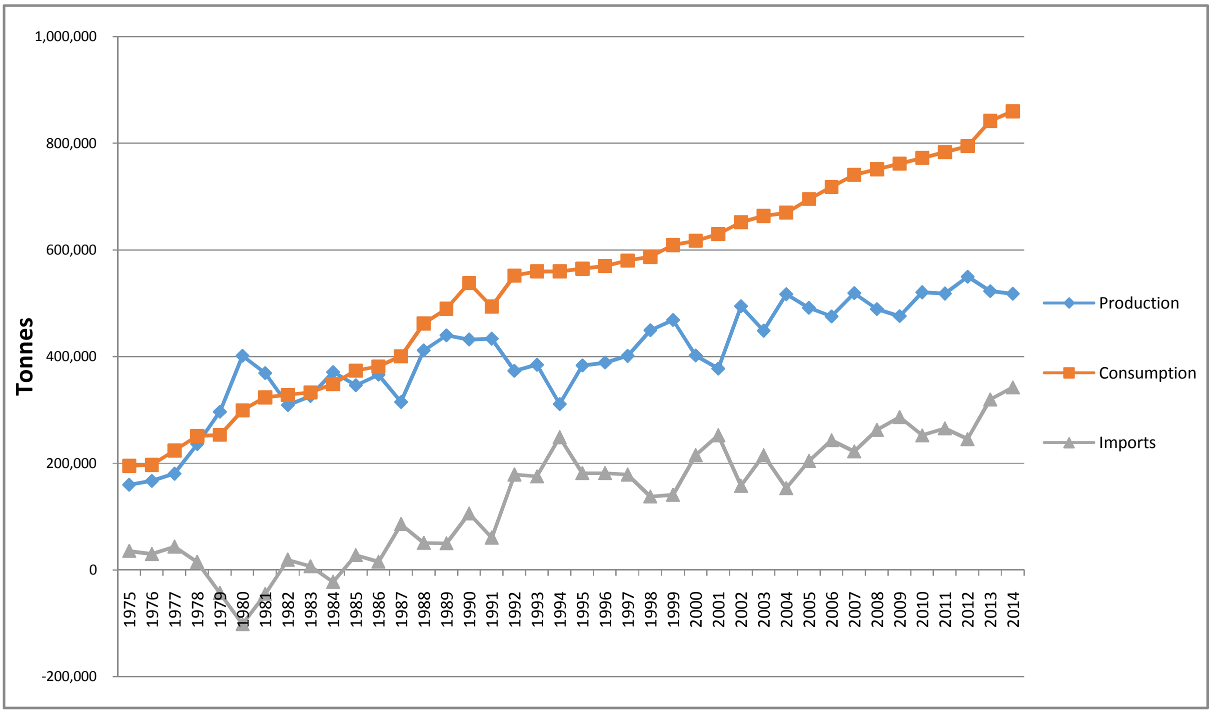
While the private millers are noted to be efficient, they were reported to have an upper hand in influencing state agencies such as the Kenya Revenue Authority (KRA) and the Kenya Sugar Directorate officials. In one of the FGDs, *it was pointed out that the private millers engage in corrupt activities with staff of government agencies to undercut state-owned millers* (KI

Interview January 14, 2016). State owned millers are not able to easily engage in corruption deals with other state officials since they operate on tight budgets which do not provide for greasing officials. In isolated cases where it is done, the management have to either do it using their own resources or hide the perks in other budgets. Furthermore, most of the private factories are owned by individuals of Indian origin with good knowledge of sugar milling and networks from India. This enables them to easily import equipment from India at comparatively cheaper prices.

There are about 150 jaggeries licensed by the KSB in Kenya.[40] The twelve factories that are currently in operation produce about 70% of the sugar demand in Kenya. As shown in Figure 4.5, the sugar production in Kenya has been on an increase but not at the same rate as the demand. As such, production deficit of about 30% is met through importation largely from the COMESA region. Domestic production in 1975 was 159,607 MT, which increased to 346,111 MT (1985), 383,393 MT (1995) and 517,667 MT (2014). As shown in Figure 4.5, between 1975 and 2014 the growth in production increased by approximately 224%.

[40] Jaggery is a sugar factory that produces wholly unrefined natural sugar without use of chemicals and is nutritionally comparable with honey, with no chemical additives. In a jaggery, sugar cane is crushed to remove the juice, which is then heated to remove excess water and then allowed to cool and dry. Jaggery is a substitute for the millers and we want them to pay for an annual trade licence of Sh50,000 before they are allowed to operate. See http://www.standardmedia.co.ke/article/2000202858/millers-of-unrefined-sugar-in-western-kenya-to-be-closed for more details.

Figure 4. 5: Sugar Production, Consumption and Imports 1975 -2014



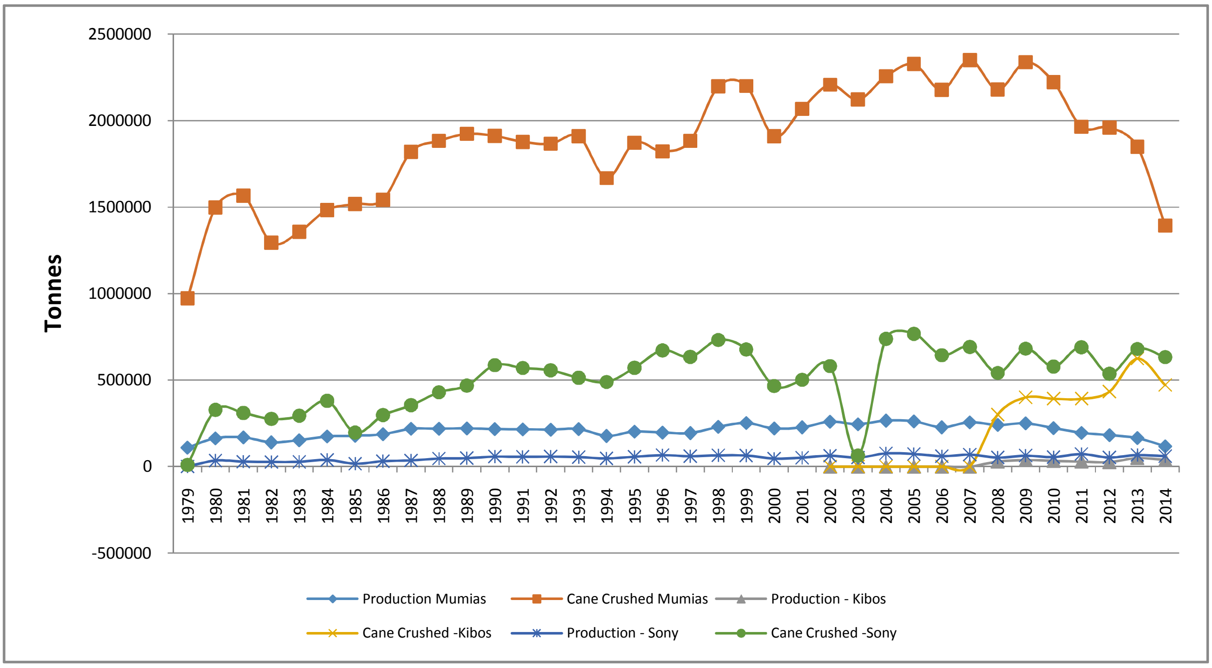
Source: Kenya Sugar Board, Year Book (various issues)

The individual sugar factories are in charge of marketing their produce. This is done through the various wholesale outlets/distributors throughout the country. During our interviews with stakeholders, there is one such distributor known as YY Ltd, who was marketing sugar from most factories in Kenya. In another interview in a sugar factory, we were informed that most factories used YY Ltd because the distributor was paying for the delivery immediately the stock was taken from the factory. This was a better arrangement because factories were able to cushion themselves against cash flow problems, a common problem when dealing with customers such as supermarkets which need 90-150 credit days.

The distributors extensively affect the sugar sector. They silently dictate the nature of sugar supply in the country. In some cases, they double as cartels influencing local sugar supply, hoarding sugar and at the same time importing sugar and distorting the market. This makes it difficult to empirically separate distributors, importers, and cartels. These triple roles have sometimes earned such firms/individuals the name sugar barons. Our FGD discussions revealed that these individuals are politically connected, and have access to top leadership in the country and keep changing faces. They have established good warehouses and structures, and in most cases they do not pay duty or pay minimal amount. Furthermore, they are able to control sugar prices, including de-stabilizing the market overnight by hoarding sugar in warehouses. In spite of these unethical traits, the barons remain important to sugar millers because of their role as distributors.

Turning to individual sugar factories, we find that production has also been on the rise (Figure 4.6). However, most factories/millers have been operating below their installed capacities (Interview with KII, November 2015). As shown in Figure 4.6, efficiency of sugar factories in Kenya is generally low. For the three selected factories -Mumias, Sony and Kibos, the difference between the amount of cane crushed and sugar produced is wide.

Figure 4. 6: Efficiency among Selected Sugar factories in Kenya 1975 -2014



Source: Kenya Sugar Board, Year Book (various issues)

Among the three factories that we visited, Mumias is by all standards the largest in sugar production followed by Sony and then Kibos. In 1979, Mumias was producing 59,207 MT of sugar, which increased to 178,175 MT (1985), 201,826 MT (1995), 260,746 (2005) but then declined to 116,735 in 2014. The average annual production for Mumias between 2006 and 2014 is about 205,755 MT. For the entire period 1975-2014, the average annual production for Mumias was 191,627 MT. For SONY Sugar Ltd, the production in 1979 was only 516 MT, which increased to 16,939 MT (1985), 56,864 MT (1995), 72,893 MT (2005) and 60,387 MT in 2014. The average annual production for the period 2006-2014 was 61,339 MT, while for the period 1979-2014 was 51,031 MT. Finally, Kibos Sugar and Allied Industries Ltd, which started operation in 2007 had a production of 29,136 MT in 2008 and has gradually increased production to 39,428 MT by 2014. For the period that the factory has been in operation, the annual average production is 35,038 MT.

Efficiency, in a sugar factory is measured by the proportion of canes crushed into sugar. We examined efficiency in the three factories in our case study – Mumias, Sony and Kibos for the period 2008-2014. As shown in Table 4.2, efficiency in cane crushing is generally low among the three factories. For this period under analysis, Mumias had the highest average efficiency level at 9.73%, followed by Kibos 9.83% and then Sony 8.23%. What is surprising is the fact that efficiency for both Mumias and Sony were on decline during the period while that of Kibos was on the rise. We can therefore conclude that privately-owned factories have a higher crushing efficiency compared to the state-owned factories. This could be attributed to technology installed as well as human skills utilization in the factories.

Table 4. 2: Proportion of Sugar in Cane Crushed (%2008 -2014)

	2008	2009	2010	2011	2012	2013	2014
Mumias	11.02	10.68	10.00	9.91	9.25	8.89	8.38
Sony	9.71	9.61	8.57	7.34	6.04	7.95	8.36
Kibos	9.68	9.27	9.51	10.49	9.77	9.85	9.54

Source: Kenya Sugar Board, Year Book (various issues)

There have been questions among the analysts as to whether the factories in Kenya are doing anything to strengthen their production capacity especially in the context of the COMESA moratorium.[41]Kenya has since 2002 been on COMESA safeguards to enable it take measures to improve competitiveness of her sugar industry. The initial safeguard period of one year was extended by another year before a four-year moratorium was granted in 2004. This was followed by another three-year extension in 2008 and two-years in 2012. The recent extension of one-year ends in February 2017. During this period, the allowable quota of sugar to be imported into Kenya has been raised from 340,000MT to 350,000MT and any additional imports above the quota are subjected to a 5% tariff. The moratorium extension was meant to help Kenya reinvigorate the sugar industry whose millers were producing below capacity.

[41]Kenya has since 2000 negotiated special safeguards under COMESA that allowed Kenya to limit the entry of duty-free sugar from COMESA region to only 350,000 Tonnes per year enough to meet the production deficit. See Daily Nations 5th July 2016. http://www.businessdailyafrica.com/kenya-extension-to-Comesa-sugar-import-curbs/-/539546/2642742/-/13vsfvz/-/index.html

Most of the sugar factories operate way below their capacities and therefore the dependence on imported sugar is unlikely to reduce, unless capacity utilization improves. Despite rosy rhetoric from the government, the Kenyan Sugar industry has been unable to increase efficiency for several years. The government established a Strategic Plan for 2010-2014 with the goal to privatise the five largest sugar mills in the country and to diversify them into ethanol distillery. However, this has not happened. Kenyan sugar yields and production costs rank among the world's most inefficient. Estimates range widely regarding the cost of producing one tonne of sugar in Kenya, from $415/tonne to $950/tonne. The FAO's conservative estimate of $570/tonne is more than twice as much as production costs in Egypt and compares to an average of $350/tonne in other COMESA countries.[42]This largely explains the government's desperate efforts to have the COMESA safeguards extended for another term.

Kenya remains a net sugar importer, as consumption continues to outpace production, this trend is expected to continue as the country's sugar sector is uncompetitive compared to regional sectors (see Figure 4.6). In recent years, the main driver for greater sugar consumption has been the growing population and industrial use. Sugar is the main sweetener in Kenya, as there is virtually no consumption of alternative sweetening products. Per capita consumption of carbonated soft drinks in the country is roughly 10-12 litres. In 2016, sugar consumption is expected to rise to 900,520 tonnes (Interview with KSB). To bridge the gap between production and consumption, Kenya has always imported sugar, with main source being the COMESA region. Mostly it is the industrial sugar meant for the manufacturing sector that Kenya imports. The quantity of sugar imported declined from 238.2 MT in 2013 to 192.1 MT in 2014 due to the extension of special safeguards on the importation of duty-free sugar from the Common Market for Eastern and Southern Africa (COMESA).

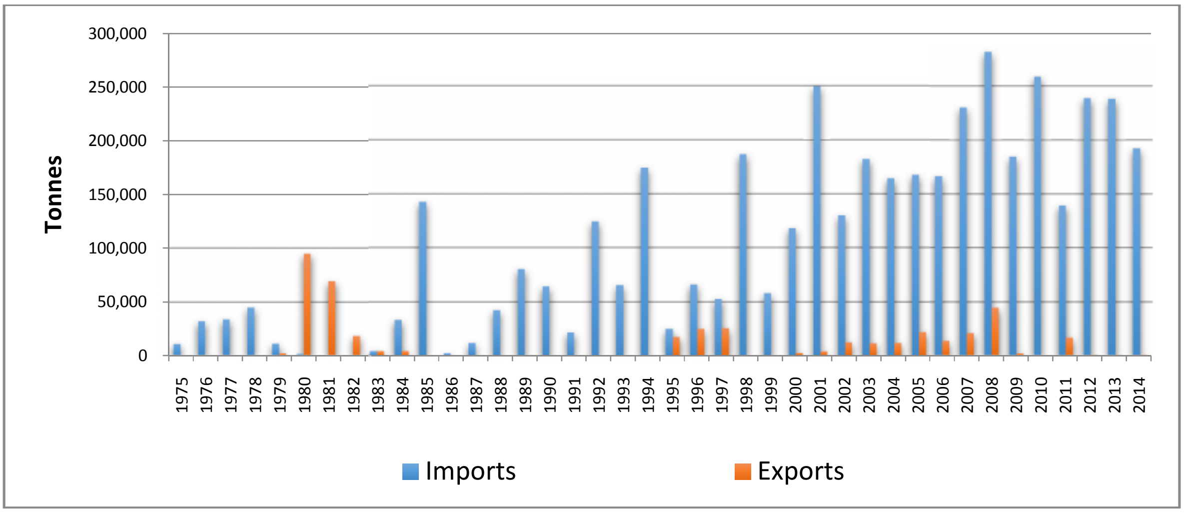
The industry is facing serious challenges of productivity, competition, governance and weaknesses in the operating legislative framework. The second aspect of the sector's challenges come from the way key decisions are made by the key actors' including decisions on sugar importation, privatisation of sugar mills, negotiations in COMESA and other international agreements affecting the industry (KACC, 2010). The other impediment comes from the political interference in the appointments of the chief executive of mills, Board members, Kenya Sugar Board elections and other key auxiliary agencies associated with the industry. These governance issues have resulted in the industry becoming very uncompetitive. From time to time the government has had to inject more money to salvage the industry from total

[42]For example, the average cost of producing a ton of sugar in Kenya is US$ 870 compared to US$350 in Malawi and US$ 400 in Zambia, Swaziland and Egypt; and US$ 450 in Sudan. In Brazil the cost of producing a ton of sugar is US$ 300. Similarly, the average cost of producing a ton of sugar cane is US$ 22.5 compared to US$ 13 in most of the COMESA region.

collapse; the recent one being the injection of Kshs. 1 Billion for the revival of Mumias Sugar Company in June 22, 2015.

Politics of sugar are generally in the importation trade. With the liberalization of the sugar industry, anybody interested in importing can theoretically do so but the Government has put in place import levies to protect the industry from dumping of cheap imports. The levies are currently 6% VAT, 7% SDF and a variable Import Duty of about 10% (KSB, 2011). However, the sugar industry has been marked by gross mismanagement, constant government interference and insufficient incentives resulting in low sugar productivity (RCE) and poor returns for farmers. The sugar barons (strategic sugar traders), are so powerful and well connected that more often than not, *they arm-twist government officials and politicians to mess up with the local industry so as to create artificial shortage for them to make billions of shillings through importation* (FGD – Sony Sugar 2015).

Figure 4. 4: Import and Export of Sugar 1975 -2014



Source: Economic Survey (various issues); Kenya Sugar Board, Year Book (various issues)

From Figure 4.7, we observe that sugar importation into the country has been growing steadily over time. Most interesting is the drastic rise in the importation of sugar around the election time (1989, 1992, 1998, 2001, 2007, 2008 and 2013). Anecdotal evidence alludes that *"the sugar barons are normally given licences to import sugar during elections time either to finance some political activities or to recoup their monies spent during the campaigns by the politicians"*(Key informant interview, 2015). This explains why there are spikes in importation around the election times.

Overall this analysis of the sugar sector points to a mucky terrain which is not easy to piece together using a single lens. The many actors engaged in the industry have access to different politicians, with many doing business with politicians, and silently influencing policy direction. This has become intense with liberalization of the sugar industry, which implies that anybody interested in importing the commodity can theoretically do so. To manage the open market, the Government has put in place import levies to protect the industry from dumping of cheap imports. However, the sugar distributors who double up as cartels and barons are able with the support of politicians to manipulate the system and distort the market.

The cartels team up with politicians to mess up the local supply of sugar which create artificial shortage. This opens a window for the government to allow sugar importation in the country which undermine millers and cane farmers. There have been reports that sugar imports by powerful sugar barons have been a major source of revenue for the terrorist groups like Al Shabaab (see Daily Nation, April 24, 2015). From the Key Informant interviews and FGDs, it emerged that some of the appointed sugar distributors and retailers have been packaging imported sugar from abroad and branding it as local. This practice undermines local cane growing and milling factories which cannot compete with cheap imported sugar. The situation is further complicated, especially for state owned factories by low production capacities, high operating costs, and huge debts and managerial inefficiencies.

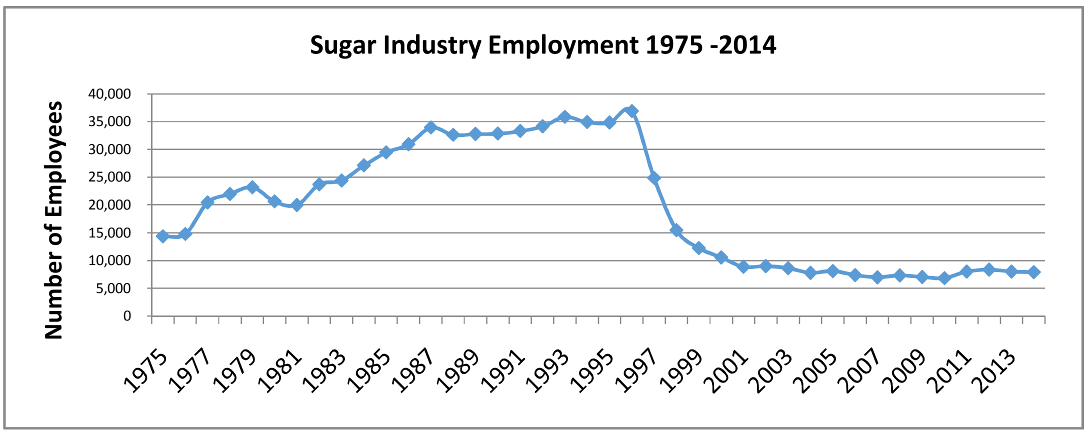
While there is interest in protecting and promoting the Kenyan sugar industry to achieve the country's objective of self-sufficiency, incoherent sugar import directions affect the industry. The incoherencies are largely a result of conflict of interest, political interference, and poor coordination among various actors within the sector. The competition among public and private sugar milling firms and the dynamics of other actors in the industry have not gelled into the actors having a shared vision for the industry. Consequently, issues such as growing the Kenya economy, becoming an exporting country, and employment generation are not goals for all the industry players. The politicians who should ensure that appropriate policies are formulated for the industry have partisan interests which undermine their ability to lobby for effective policies and regulations for the industry.

4.4 Employment Issues in the Kenyan Sugar Industry

The Kenyan sugar industry is a major employer of labour due to its labour intensiveness. Employment can be perceived from the sugarcane farming and also sugar processing - factory level (Kenya Sugar Board 2010:2). As already noted there are approximately 250,000 small-scale farmers who mostly use family labour in the sugar cane growing and therefore the exact number of employees in this part of the value chain is not known. Some conservative estimates indicate that six million Kenyans, representing about 16% of the entire population, derive their livelihood directly or indirectly from the sugar industry. In the sugar cane farming, men do most of the work such as planting, pruning, harvesting and transportation as cane is culturally considered a male crop. Women provide labour in ploughing and weeding activities that are considered feminine. Within farms, women are not in charge of cane but other crops within the household.

The sugar factories are considered labour intensive and provide direct and regular employment for many workers. As shown in Figure 4.7, the employment level in the sugar factories rose steadily between 1975 (14,350 workers) to the peak in 1994 (57,392 workers). From 1994, following market liberalization, employment in the industry started declining. For instance, in 1996 employment was 36,875 and in 1997 24,827. In 2000, employment stood at 10,552 which further declined to 7,902 in 2014. The average employment in the sugar industry between 2000 and 2014 was 8,052. There is paradox when we examine increased production in the context of declining employment, which could have actually inferred increased mechanization. Our discussion with management of sugar factories however revealed that there was over employment in the state-owned factories due to interference by politicians who would push for individuals to be employed without regard to existing human resource needs of a factory. Management that declined to employ the people pushed by politicians would face their wrath including being fired from the board *(Field Interview, 4th November 2015)*. The decline in employment could actually mirror the laying off of excess labour. In addition, the rise of private –owned sugar millers may have enhanced increased mechanization and efficiency in production.

Figure 4. 5: Employment in the Sugar Industry 1975 - 2014

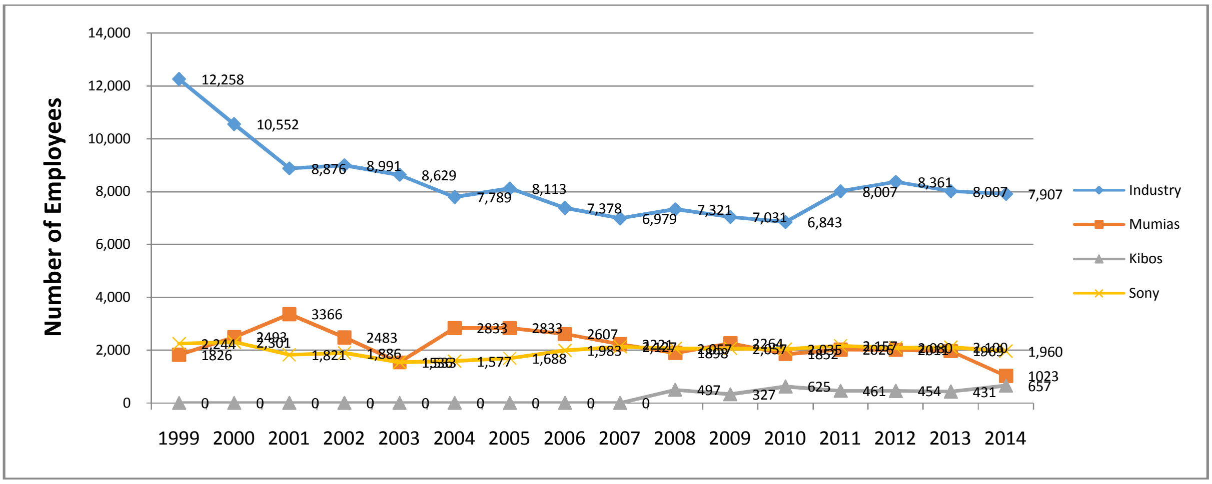


Source: Kenya Sugar Board Year Books (Various issues)

The fieldwork data reveals that employment in the sugar industry is male dominated. In the factories more than 80 per cent of employees were male arguably because of the masculine nature of work in the factories. The few women working in the factory were in administration, laboratory and weighing bridges. This was common across all factories that the team visited. What we observe is that the employment in the sugar industry has been on decline since 1996 due to effect of trade liberalization and stiff competition from imported sugar. This is also reflected in the factories where the number of employees has also declined. In Figure 4.8, we compare employment in the industry in relation to the three selected sugar factories namely Mumias, Sony, and Kibos for the period 1999 - 2014.

Mumias Sugar Factory is one of the largest sugar processing factories in Kenya. As such it has the highest number of employees. However, due to management crisis experienced since 2010, the employment levels declined drastically to about 1,023 in 2014 from a peak of 2,833 in 2005. Between 2010 and 2014, employment level in Mumias was on average 1,776 workers. During the same period (2010-2014), the average employment in SONY and Kibos were 2,066 and 526 employees respectively (Figure 4.8).

Figure 4. 6: Employment in Selected Sugar Factories 1999-2014



Source: Kenya Sugar Board Year Books (various issues)

Turning to the employees in the survey, we find that of the 70 employees in the sugar industry surveyed, 39 were male while 31 were female. About 39% of them (25 employees) were aged between 18 and 35 years; 50% (32 employees) were aged 36-50, while 11% (7 employees) were above 50 years. Compared to the cut-flower sector, the sugar industry had older employees. Most of the employees were married (81%) compared to 17% who were single and 12% who were divorced, separated, widowed or cohabiting. In the sugar industry, 50% of the employee respondents had attained college education, while another 36% had university education. In our sample, all employees had at least primary education. This implies that the sugar industry employs people with relatively good education.

Employment in the industry based on our sample seemed to cut cross various ethnic background. Luos were dominant at 50%, followed by Luhya (37%), Kisii (5%), Embu (5%), and Kikuyus (2%). Other ethnic groups represented included Kalenjin, Kamba, Meru and Masaai.

Most of the employees were the head of households (64%) while the spouses accounted for 30%. This implied that most of the employees in the sector were actually main breadwinners in their household. It is therefore imperative to argue that employment income from this industry was crucial for household wellbeing. At household levels, the dependency levels were high with nearly half (47%) of the respondents indicating that they had households of between 4 and 6 people. Most employees had only worked in the sugar industry and more specifically the factory that they were interviewed in. This means that mobility across industry and factories among employees was generally low. In the factories, most employees indicated that that they were employed on permanent terms which could be the reason why most of them had stayed in the same company for a long time. Good salaries, company reputations, career development, familiarity with work, and passion for work were some of the reasons that employees gave for staying in the sugar industry. The element of a relative working in the sugar industry and factory was common among the employees in our sample at 67%. This meant that one would entice a relative to join them in the factories that they were employed. Management also indicated that they often advertise for jobs internally.

The farmers involved in the sugar growing were quite varied in terms of gender, age and education levels. Of the 62 farmers in our sample, 14 belonged to Kibos Sugar factory, 28 Mumias and 20 Sony Sugar. Approximately 75% (47) of them were male, 25% (15) were female. This is another indication that the sugar farming was dominated by male farmers. The mean age of the farmers was 46.6 years with a minimum of 25 and maximum of 75 years, respectively. Over 95% of the farmers indicated that they were married and only 3% who indicated to be single and another 2% as widowed. Almost 60% of the farmers were the heads of household while the rest (39%) were spouses of household heads. In terms of education, 45% of the farmers had secondary level, while 34% had primary education. Those with post-secondary education in our sample were less than 20 per cent. Famers had higher dependency rate at 5 people which were comparable to the employees in the industry. Most farmers were either Luo or Luhya at 52% and 45%, respectively. Other ethnic groups mentioned among farmers were Kalenjin and Giriama.

The mean acreage under sugar among these farmers was 6 Acres with a minimum of 0.5 hectares and a maximum of 120 hectares. There were only 2 farmers who had 60 and 120 hectares which may have pushed the mean upwards. Further analysis revealed that those farmers with at most five hectares were 48 out of 62 farmers (representing 78%). We can therefore conclude that most of the sugarcane farmers were small scale. The average period that these farmers had been in sugar farming was 15 years with a minimum of 1 and a maximum of 42 years. Those with less than 10 years in sugar farming were 31%, while those with more than 25 years were 27%. About 53% of these farmers were farming in family or inherited land while 47% had bought or rented land where they planted sugarcane. Some of the reason given by those who had ventured into sugarcane as a business include good proceeds from sugarcane, factories supplying seedlings and inputs, and influence by friends or relatives. It is therefore not surprising that 65% of the farmers indicate that they had their relatives in the sugarcane farming. More than half (55%) of the farmers indicated that they planned to expand acreage under sugar farming.

Employment in the sugar value chain can be viewed in two ways: (1) direct employment in the sugar factories and (2) the farmers who were cultivating sugarcane. Proceeds from these two main engagements seem to have a great influence on household income and livelihood. It is therefore imperative that there is need to not only protect the jobs in the industry but also explore ways and means of expanding job creation in the industry.

4.5 Challenges facing Sugar Industry in Employment Creation

The sugar industry has great potential in creating employment in Kenya. Prior to economic liberalization, the industry especially the processing section employed a huge number of people. However, due to a number of factors this potential has dwindled significantly. Employment in the industry/value chain has been constrained by political interference. Evidence has shown that sugar is one of the highly politicized crops/commodities in Kenya. The politics of sugar is generally in sugar cane growing, milling and importation. There are many actors with diverse interests ranging from politicians, business community (barons), NGOs, bureaucrats, and local organizations. From a political point, there has been great interest to keep the milling industry as state-owned. Our interviews revealed that politicians at times, use these parastatals to employ their own people who sometimes are not relevant to the factory.

Following the trade liberalization, sugar trade was opened but one has to get a license to import. Due to the restrictions in the importation, our field data showed that politicians team up with the sugar traders (barons) to mess up with the local supply of canes so as to create artificial shortages. As a result of these shortages, the government is left with no choice but to allow importation. By the time this window for importation is being opened, imported sugar would be in high seas and ships are soon docking at the terminals. The shortage created in this case appear to be a well calculated move to enrich certain individuals who are engaged in sugar business to the peril of farmers struggling in the rural areas growing sugarcane.

There have been reports that sugar imports by powerful barons have been a major source of revenue for the terrorist groups like Al Shabaab (see Daily Nation, April 24, 2015). Although the reports do not name individuals, it has been established that one of the biggest sugar smugglers based in one of the Kenya Somali border towns, Garissa is related to a senior politician. He has been operating a lucrative smuggling ring between the port of Kismayu in

Somali and Garissa that brings in millions of dollars a year. The sugar trade has boomed since Kenya Defence Forces (KDF) went into Somalia in late 2011 and has overtaken charcoal as southern Somalia's leading cross-border trade commodity. The smuggler has a fleet of trucks that operate between Garissa and Kismayu. On their way to Kismayu they carry Kenyan food and consumer goods and on their way back, they are loaded with hundreds of bags of contraband sugar imported from Brazil (Daily Nation April 24, 2015).

Policy inconsistencies, conflict of interest, contradictions and interferences between various agencies in the sugar sector, political interference and lack of competitive production and marketing of sugar has meant that the industry has continued to face financial and managerial doldrums. Politics in the growing, milling and marketing of sugar, seems to undermine the success of the sector and by extension adversely affect the livelihoods and employment status of thousands of Kenyans.

Relevant laws and regulations governing sugar imports and exports should be amended to provide for higher accountability and public health standards for re-packaged sugar and for stiffer penalties for offenders. From the case studies and FGDs, it emerged that some of the appointed sugar distributors and retailers have been packaging imported sugar from abroad and branding it as local.

Out-grower institutions that are supposed to provide important services both to farmers and millers have failed to perform their functions. This has left sugarcane farmers without a voice and at the mercy of markets and factories.

There is evidence to indicate that low production capacities, high operating costs, huge debts and managerial inefficiency are responsible for the dismal performance of the industry. This proves the crisis experienced in the industry for many decades. These have been exacerbated by failures on structural problems emanating from political interference in sugar management.

SECTION FIVE

POLITICAL SETTLEMENT AND EMPLOYMENT CREATION IN THE CONTEXT OF CUTFLOWER AND SUGAR INDUSTRIES

5.1 Political Settlement Analysis

As already discussed in section 2.4, political settlements in our study refers to the formal and informal elite relations that underpin the "overall balance of power, (including organization and its exercise) in a society."[43] They include the common basis of elite bargains, conflicts and the rules that constrain or facilitate their interactions. The overriding basis of every political settlement in Kenya has been political patronage, with the head of state playing the role of grand patron.[44] Political patronage was exercised at various levels, vertically, between the state and citizens and president and MPs/cabinet secretaries/other appointed officers, and horizontally, between and among MPs/Cabinet.

An examination of the six different regimes since independence reveals a number of political alliances and settlements. These regimes include: Jomo Kenyatta's (1964-78), Moi I (1978-1989], Moi II under the multiparty system [1990-2002], Mwai Kibaki (2003-2007), Mwai Kibaki and Raila Odinga regime under the NARC coalition government (2008-2013) and the current regime of Uhuru Kenyatta (2013/2017). These regimes have been struggling with employment creation and development of various sectors of the economy. At the center of the struggle, are the different actors and interests that sometimes converge, while in other cases they conflict. The convergence and conflicts are often over elite interests and in isolated cases over national interests, including contention on how ruling regimes allocate resources across regions of the country. Furthermore, the regimes have also been different in terms of inclusion and stability, with inclusive settlements being neither the most stable nor the most productive in terms of economic and agricultural growth or employment generation.

The above notwithstanding, the beginning of every regime seemed to have a political settlement that was more stable and inclusive, as each leader tried to win wider support and more legitimacy. However, due to changes in the nature and composition of elite alliances and intermittent political settlements, Kenya's economic policies in general, and agriculture in particular, have remained consistent with slight changes. This has been reflected in the varied economic growth in general, and agricultural production in particular, and the number of jobs created in the agricultural and agro processing sectors which have all varied over time, with most of them being in the informal sector. The cross cutting parameter in these dynamics has

[43] For more details, see Khan (1995).

[44] Different presidents achieved this with varying levels of success. However, none was more successful in this than Jomo Kenyatta.

been the alliances and counter-alliances among political elites, and their collusion with business elites. These political cum business alliances have been inconsistent and temporary, and have largely benefited the elites and undermined the overall development of sectors, employment generation and livelihoods of ordinary citizens.

Looking at Kenya's history one is able to identify a few established political settlements, beginning with the colonial period, which had the settler cash crop farmers forming coalition with the colonial government. These elites established political settlements that excluded Africans, including emerging African elites. At independence there was a de-racialization of the privileges enjoyed by the white farmers as these were extended to a tiny group of African elites entering both the public sector and the agricultural sector. The exclusive approach did not, however, change much as the African leaders excluded the overwhelming majority of the citizens as well as segments and groups in society they considered opposition. Unfortunately, these groups were and continue to be identified by their regional locations, whose development also tends to be undermined by the lack of inclusion in the ruling alliances and existing intermittent political settlements. Furthermore, development and advancement of economic sectors, including agriculture is given minimal attention.

Realignment of interests and regional protection is often displayed in party politics which began at independence with two major political parties, the Kenya National African Union (KANU) and the Kenya African Democratic Union (KADU). These parties represented regional interest and promoted the interests of regional elites, with KANU representing the dominant ethnic groups while KADU represented the minority interest groups which felt threatened by the majority groups. However, the latter group was very unstable and ended up disbanding to join KANU. A further split of KANU followed when Jaramogi Oginga Odinga, branded as a communist and advocate of ordinary citizens, formed the Kenya Peoples Union (KPU) in 1966.

Jaramogi came from the cane growing region and since the split from KANU, with the exception of Mwai Kibaki and Raila Odinga (son of Jaramogi) regime, the elites of the cane growing region have not been effectively included in ruling alliances and political settlements. This has been noted to affect the general development of the region, and a few elites from the region who have been included have not effectively used their inclusion to leverage resources for the development of the region. On the other hand, the elites who come from the flower growing regions which largely include the Central and Rift Valley Provinces, have largely remained part of the ruling regimes, often forming a regional block(s) of ruling elites and leveraging resources for their self and regional development.

Of particular mention is Jomo Kenyatta's regime which mobilised power and used it for economic gains for his central province region, including linking the region with international capital. This involved nurturing relations with the outgoing settler elites and local elites especially from the rift valley. Kenyatta did not necessarily exclude non-Kikuyus from his political settlements. Those non-Kikuyu elites who were not opposed to him found accommodation and were also able to accumulate as well, this way non-Kikuyu also found their way into, and were able to purchase land in the high potential agricultural areas in the Rift Valley. This was a strategic move targeting massive high potential land in the Rift Valley left by the colonial settlers. The Moi regime which followed the Kenyatta regime after elaborate alliance over the years, lasting over two decades. The regime centralised resources and economic benefits with hardly any competition and need for alliances. Through autocracy, he co-opted those he needed at any given point and pushed off those he no longer needed, succeeding in exercising his patronage over the various elites. In 1992 the third wave of democracy put pressure on Moi's regime opening space for a dynamic political economy with many elite and other interest groups lobbying to have a share of governance using their regional blocks, economic and personal interests as networks of influence. In this triangle it is almost impossible to piece out the main driving force in the various silent short-term political settlements that political elites curve at any given time.

Nuanced in regional and ethnic blocks are power struggles over access and allocation of resources which are equally complex and difficult to piece out. A cursory examination reveals power coalitions around resources and sectors of the economy. The promotion of coffee and tea during the Kenyatta regime and a shift to cereals and grains during the Moi regime are partially a demonstration of this outcome. This was a benefit to the new political elites that surrounded Moi (Lofcie, 1989; Poulton & Kanyinga, 2014). While the shift was explained by the need to promote food sufficiency, in reality it was aimed at benefiting the new coalition of elites drawn from the President's region that were keen in developing crops from their region.

The Kibaki regime which followed Moi attempted to balance elite interest and to be inclusive. The regime began as a coalition bringing on board political elites from Nyanza and Western Kenya, the home of sugar growing which had never been fully embraced by any previous ruling group. This was part of the outcome of a political settlement among elites from five regions of Kenya, and was more inclusive although it did not last, with the initial inclusive settlement collapsing in 2005. In this settlement, each of the five regions got a political position and continued to hold political positions and to be at the resource allocation table until the breakdown of the alliance due to the failure to satisfy and maintain the various demands of the competing political elites. In this case, inclusiveness failed because it could not moderate the conflicting demands of the elites in the alliance.

Kenya is currently more democratic, but elite alliances, bargains and political settlements largely remain the same, although a new constitutional settlement around a devolved system of governance has decentralised power and the location of sub-national political settlements. Regions are beginning to make claims to their national entitlements through their governors and other elected leaders. At the local level there are also counter-claims and desire to promote regional and local interests through localized alliances and political settlements. These localized political processes were demonstrated in negotiated democracy where political elites in counties, especially those with multi-ethnic groups negotiated how to divide the various key political positions. Unfortunately, these kind of political settlements do not focus on economic growth or capacity of individuals being negotiated in or out(Mitullah, 2016).

Against the background of the national, regional, and local processes highlighted above, in the following sections, we tease out potential aspects of political settlements in the cut-flower and sugar sectors. The actors, their interests and how the two relate and what influence their relationships have had on production in the sectors are highlighted.

5.2 Political Settlement and Employment in Kenya's Cut-flower Industry

The flower sector is both a major foreign exchange earner and a significant employer of locals and is driven by international regulations and standards; the quality of its products; and, concerns on how employees and the environment are treated. Unlike the sugar sector, a mass consumer good which attracts the interests of the entire Kenyan population, Kenya's flower industry is generally an isolated export-oriented sector. Its production has for long been isolated with large farms behind high walls owned mainly by foreigners, and a minority shareholding of some key elements within government, who produce for export. Despite the entry of a large number of small-holder farmers and the emergence of a large retail trade of flowers in Nairobi and other major towns in the country, the flower sector has remained an isolated industry whose politics hardly concerns the common man. Apart from some isolated workers' issues, the sector has never been an important subject of national or regional politics. Consequently, the political settlements in the industry have differed from the traditional political settlements that have developed in the sugar and other sectors of the economy.

Kenya's flower industry has a significantly larger number and types of players and some of the most intricate relations in the entire agriculture sector. On the production side, they range from large-scale foreign producers to thousands of small-holder farmers; a large number of suppliers, grafters of seedlings and stems; chemical, fertilizer and other input suppliers; and, multinational corporations. In addition, there are bankers, politicians and a host of middlepersons who buy and sell/export flowers purchased from smallholder farmers and excesses from large producers. In the last two decades, flower consumers in Europe, European governments and environmental and civil society organizations have become important players in the industry. They have influenced the development of numerous standards that flower producers must adhere to or risk their products being banned from European markets.

This has brought back the state and state regulatory and enforcement agencies as key players in the industry, but has nevertheless allowed market forces to continue driving the sector.

In addition, there are a number of political elites who have entered the sector for a number of reasons. While many are genuine investors and farmers, a small percentage has entered flower farming as a way of either cleaning-up monies acquired corruptly or collecting rents from the lucrative business, which takes several forms. This group act as middlemen for producers in securing government licenses, suppliers of key inputs in the flower farming, land and water brokers, and in some cases even organize the local communities to make demands on the flower farmers

The majority of both genuine investors and crooked money launders are elements within the ruling elites and their entry is not likely to change the political settlements in the sector since none is likely to antagonize the ruling elites or challenge local politicians. More important the crooked investors and cartels are not strong enough to seriously challenge or alter existing settlements in favour of market forces.

An examination of the traditional flower growing areas in the Rift Valley and the emerging flower growing areas in Meru, Thika, Limuru and Nanyuki reveals that they are predominantly in pro-ruling regimes' areas. Furthermore, the flower firms have been owned by MNCs and political elites from, or aligned with, the ruling elites, and the interests of the ruling regime have not significantly differed from the interests of the elements within the flower industry. As a result, almost every political settlement that has been operational in the flower sector has tended to complement the market forces driving the sector. Even the enforcement and regulatory roles of the state are seen as complementary to the market forces. Thus, the few cartels that have formed in the sector, including money launders, have not been able to galvanize a strong enough group to challenge existing pro-market and pro-profit oriented settlements.

The entry of foreigners in Kenya's horticulture sector and the symbiosis that has developed between them and the various (ruling) political and local elites, is historical and was facilitated by Kenya's Sessional Paper No. 10 of 1965, that laid down the foundation for the development of a mixed economy combining elements of liberal capitalism to attract foreign investments and aspects of domestic socialism, targeting smallholder farmers. Over time, due to the export orientation of flowers and the isolated nature of flower production, a unique but inclusive political settlement seem to have developed in the sector oriented towards profit maximization. This settlement has revolved around the interests of exporting foreign investors, thousands of Kenyan smallholder flower exporters and a host of other non-producing local and national exporters, whose interests have been complementary to that of state elites in different regimes. This is what has been called "the quartet," dominant in Kenya's flower sector—foreign MNCs, local (but non-Africa) producers, key state bureaucrats and a powerful group of political operatives. Thus, despite the numerous interests in the flower sector “business interests driven by market forces” have been the dominant driver of the sector even though the Kenyan state “is still powerful” due to its regulatory powers.[45] The global civil society has been successful in pushing for greater respect for workers’ rights and environmental standards through this profit-oriented system.

Since Sessional Paper No. 10, the Kenyan state has assumed a mutuality of interests with the private sector and although the state has remained “actively neutral” allowing market based regulations to drive the sector, it has not shied away from its regulatory and facilitative roles. Despite the state being a major player in flower production, it has neither been interventionist nor has it interfered in the sector through unnecessary regulations. Rather, the state has successfully walked the tight rope of effective regulation while allowing market forces to drive the sector. Similarly, although the state has not completely abandoned its mediatory role between the interests of a weak domestic bourgeoisie and the powerful international actors, it has not been able to provide the support that the smallholder producers in the sector need to become a viable employer or increase employment. It has also not provided the youth with adequate incentives to attract them in flower farming.

A number of factors explain the dynamics in the flower industry. First, despite representing different constituencies, the interests of the dominant large-scale foreign producers and the thousands of African smallholder farmers have not conflicted to a level capable of upsetting the political settlement in the sector and nationally. The export market has been relatively open to quality flowers, irrespective of origin. Second, despite having had four different ruling regimes since independence, the economic policies affecting flower production, and political orientation to flower producers and flower producing areas, have almost remained unchanged. The various ruling and local elites have maintained symbiotic relationships with the leading elements within the flower sector, that have ensured pro-business policies and practices. This probably explains why the flower sector seems to be driven largely by market forces.

The above has been enhanced by a number of factors. First, the bulk of the population in the flower growing areas have generally supported the various ruling regimes. The traditional flower growing areas have been in Central Province of Kenya and in some areas in the Rift Valley predominantly occupied by the Kikuyu and the Kalenjin respectively. During Moi’s 24 years’ presidency, flower farming was also expanded to Naivasha and Nakuru areas. Later it was expanded to other Kikuyu occupied areas of Nanyuki, Meru and Thika. After Moi, another

[45] Interview, Director Policy and External Relations in the Ministry of Agriculture, November, 2015

Kikuyu, Mwai Kibaki took over and was succeeded by the Uhuru-Ruto, blending Kikuyu and Kalenjin interests.

As pointed out earlier, the major flower growing areas are found in Nakuru, Meru, Kiambu and Kajiado counties. These areas have mainly voted for the government in power. None of these areas can be considered opposition stronghold. Thus, in the absence of a strong opposition in the area, no contention within the flower sector has developed into a significant political issue capable of upsetting either national or sector political settlements. In addition, the thousands of smallholder farmers in the sector have remained unorganized and therefore their struggles to gain access to credit and land have not been significant enough to upset the balance in the sector between the ruling elites and segments of the local political elites aligned to the small producers. This might explain why even when non-flower producing middlemen with state issued export licenses continue to exploit smallholder farmers and extension services grinding to a halt without any intervention by the state, no significant rebellion has taken place at the local lever.

Further, due to the isolated nature of flower production, employment and employee concerns have neither been politicised nor become significant mobilizing tools for local elites. This might however, be because the state has invested much in flower growing areas in terms of roads, electricity, security and other infrastructure development than it has in other regions.

Consistent with existing international norms, the government is studying the value chain to correct some of the potential threats to existing settlements such as worker exploitation, and is working towards improving incentives for farmers. In particular, the government is keen in ensuring that workers, farmers and the environment are not exploited. This notwithstanding, the government actions are still within the same policies that have avoided upsetting existing political settlements. Thus, no other actors, whether cartels, money launderers or the few opposition figures have been able to attract strong enough support to form an alternative settlement capable of steering the flower sector in an alternative direction.

Indeed, the sector has not witnessed the kind of political cartels that have plagued other agriculture sectors such as sugar or grains. The sector has not generated the kind of national political interest or local politics that has seen state infusion of billions of taxpayers' money to bail farmers out, as has happened with sugar, coffee, tea and grain growers. The sector seems to have been cushioned from national and local politics. In fact, even where cut-flowers are produced in the same region as coffee, tea and of late *miraa* (khat), flower production and producers have not been sucked up in partisan local politics the way producers of other crops have.

The above factors have not just combined to steer the sector along market forces, but have cushioned the sector from cartels and other political intrigues to an extent that cartel based settlements and settlements along-side predatory elites have not been able to establish themselves or become strong enough to redirect the sector from market forces.

5.3 Political Settlement and Employment in Kenya's Sugar Industry

Cane growing, milling, sugar distribution and consumption, by contrast, attract public attention and politics due to their effects which cut across all income groups and regions. Apart from the generation of employment, the product is consumed by almost all citizens. Consequently, the industry is highly politicized and attracts many actors and institutions, of which the state and related agencies remain central. Other actors include: farmers, associations of farmers, labour sub-contractors, millers, distributors, and importers including cartels and sugar barons as well as politicians. Among these actors, the farmers wield least power and are often not part of alliances and resultant political settlements in the sector.

Using our definition of political settlements, the sugar sector has many elites competing to find space in the sector by nurturing tight relations with the ruling elites. (This is done using both an open and a closed approach. The former is easy to track and study while the latter is often a closed pact, only known to those who wield power. Consequently, there is no defined path for reaching a political settlement as often assumed by analysts of political settlements. Political settlements analysis also includes 'closed' arrangements that might not be seen, but whose effects can be consistently felt.) In the sugar sector many paths exist using different actors, with the political elites remaining central in the equation. This group of actors include politicians at local, regional and national levels who are often the first point of contact for political settlements depending on the constituencies they control.

In the sugar sector the politicians are in touch with the farmers, millers, distributers, importers and cartels. This gives politicians leverage of influencing alliances, negotiations and lobbying for the sector. In particular, politicians are in touch with farmers and millers, who also double up as their voters and constituencies. Politicians and other elites are able to mobilise the farmers against millers and to mobilise support for political ruling elites. The ruling elite (at the national level) have been noted to reward individual politicians without coming up with political settlements that benefit the sugar sector. This partly explains the poor performance of the sector compared to other sectors such as cut-flower, tea and coffee.

Secondly, the sugar growing regions have never had a President coming from the regions. This is important because the common practice in Kenya has been to have the President surrounded by people coming from the same region. This implies that a higher number of political and business elites are available to negotiate and lobby for such regions as insiders. Even though nearness to the centre of power normally benefits the elites, there is a perception that citizens also benefit from it as well. Thus, the sugar growing regions have not had this advantage and the few politicians who are rewarded are not able to effectively nurture viable political settlements for the sugar growing regions or for the sugar industry as a whole.

The distributors and importers who double up as cartels and barons in the sugar sector are very good at influencing processes and nurturing silent political settlements in the sugar sector. Most of these individuals and firms work in cahoots with powerful national and local political elites and bureaucratic elites located in government agencies. This enables them to have information which ordinary distributors and importers do not have. They are able to know from their networks when the local supply of sugar will be low to warrant calling for importation of sugar; and in other cases they collude with the political elites and bureaucrats to distort the supply to allow a window for importation. These rather short term political settlements do not seem to result in outcomes that can turn around the sugar sector, and to a large extent explain the general poor performance of the sector.

The recent move to privatise the sugar milling industries has triggered an attempt to reach a political settlement with two contending forces, one supporting and the other opposing the move. Those against privatization, include both the national politicians who have benefited through appointments, and those located in county governments who view the milling industries and sugar growing farms as their regional assets which should not be managed by the national government. The business elites want the sector totally privatised, while the local political elites do not want privatization. This has put the ruling national political elite who are responsible for the sector at the centre of the confrontation and they have to balance the various interest groups. As discussed in this paper some milling industries have been privatised while others remain public. Although this research could not find out the inner details leading to whichever policy action taken, such detail would be very useful in understanding the embedded political settlement(s).

Irrespective of the status of the milling industries, the local political elites are important in political settlements. They have influence on the operations of the milling firms, and are also able to rally local sugar farmers and communities for or against the firms and the ruling elites. Furthermore, they are crucial to the survival of the ruling national political elites in respect to voting block which they control in the sugar growing regions.

Overall, this analysis largely reveals that elites, including individual politicians are in cahoots with private interests in trying to squeeze resources from the sugar sector. In this alliance there are different benefits for the respective elites. The elites from the sugar growing areas who should protect the sugar millers and farmers seem to be okay with the little perks, including appointments to be directors of the same ailing sugar milling firms or other lucrative appointments. This compromises their ability to spearhead alternative political settlements beneficial to the sugar industry.

SECTION SIX
CONCLUSION AND POLICY ISSUES

6.1 Summary of the Findings

Employment generation is higher in the flower industry which is privately owned compared to the sugar industry which has largely been state owned. The political moves and settlements in the flower industry are driven by the demands of the market, including market efficiency, global civil society advocacy, and mechanization and application of technology, which have all combined to create a positive impact on job creation and workers' rights. On the other hand, the sugar industry is captured by state inefficiencies and selfish interest groups and alliances, which may not be addressed by the on-going privatization. The inefficiencies have been exploited by private milling factories which are becoming the leaders of the industry buying cane, expanding production and employment opportunities.

The dynamics in both the flower and sugar industries are dictated by political and business elite alliances which do not prioritise employment generation and improvement of livelihoods. This is more glaring in the sugar industry where the presence of cartels in alliance with political elites has not translated into any improvement of production or expansion of employment opportunities. Our findings indicate that even in isolated cases where elites from the cane growing regions have been accommodated by the national ruling elites, no substantive improvement in the industry and employment generation has been realised. This supports the argument that the alliance between political and business elites do not necessarily translate into improving the industry. The appointment and inclusion of such regional elites to lucrative positions in government seems to keep them quiet and compensate them at individual levels for state negligence of the industry.

The sugar sector has attracted cartels of importers whose interests conflict with those of cane farmers and millers. These cartels have had supportive influence of key political leaders whom they finance during elections, which creates conflict of interests. These competing interests in the sugar industry continue to undermine production and employment generation. Although the flower industry is also exposed to business and political elite alliances, the industry is driven by market forces, including efficiency, profits, advanced technology and other returns such as foreign exchange, expansion of production and markets, and, better prices for their products. Overall, the sector is more luxurious, dominated and regulated by the interests of its foreign consumers. These factors have cushioned the sector from the inefficient business and political alliances which have undermined performance in the sugar industry.

6.2 Policy Recommendations

The two sectors discussed in this report are different in outlook, but they both require policy and administrative measures for efficient performance and employment generation. Although the cut-flower is generally performing well, the situation of the small holders' need to be addressed in order to improve production and employment. Most of these farmers lack efficient extension services, technology, credit facilities and are not able to comply with the demands of the export market. On the other hand, the large and medium scale farmers require good infrastructure and services, which majority of the investors are currently providing, albeit not in an ideal manner.

The sugar sector has complex challenges revolving around internal inefficiencies, processing and marketing. The industry is captured by millers who are not able to effectively support the farmers in managing the production process, distributors who double up as cartels, and compromised state officials who undermine the sector's efficiency. The following are policy recommendations for each of the sectors.

Cut-Flower: The sector has potential for growth which call for policy intervention in the areas of land, infrastructure and extension services. Land for expansion remains a challenge and there is need for incentives and support on land processing for expansion of investment. Such support should address issues of land acquisition and related processing, as well as allocation of resources for infrastructure development and maintenance. These interventions have potential of opening up opportunities for new investors and those keen on expanding their investment, which in turn should increase employment and production. The investors have been maintaining infrastructure, and in some cases providing infrastructure, which reduce their profit margin and incentive for further investment in the sector.

The small holders require support in the areas of infrastructure, production, including technology, extension services and marketing. This will enable the farmers to access markets, compete with medium and large firms, and generate employment. The initial costs of investment, especially infrastructure and technology which the government does not absorb is very high and beyond the reach of small holders. Besides this challenge, these farmers are not able to provide and maintain infrastructure, access credit facilities, technology, extension services and markets. Consequently, the government should prioritise small holders and partner with other agencies to support them for improved productivity and employment generation.

Sugar Sector: This sector has internal inefficiencies and external dynamics which affect production, processing and marketing. The problem is more intense in state owned milling factories which are generally inefficient in capacity, and technology and can hardly compete with private millers. In order for state millers to compete and generate employment, there is need to build capacity of the firms and also enhance technology. The weak capacity of state millers has been further undermined by licensing of private millers by the regulator without following due process. The comparatively efficient private millers invade growing zones assigned to state millers leaving the latter with no cane. Consequently, there is need to resolve the tension between private and state millers. One option is to fast track the privatization of the state millers, while complying with the requirement of not licensing new millers within 40 kilometre radius of another miller.

Marketing of sugar, in particular embedded cartels is another area that requires state intervention, although this study revealed that the state elites are part of the problem. Addressing the manipulation by cartels as well as political and business elites requires having industry specific policies and strategies which address the core issues and coordinate the industry. The fear of cartels has kept potential investors out of the sugar industry, while the collusion of business and political elites undermine required efficiency in the sector. The policy makers who should be the referee between state and private millers are partisan and benefiting from the inefficiencies of the industry. Furthermore, infrastructure and related services are largely left to millers and state millers can hardly cope. Turning the sector around require strategic approaches to providing infrastructure, services, harmony between state and private millers and addressing cartels within the industry.

Last but not least, there is need to support organising of farmers' associations and cooperatives. One key feature of both value chains studied is the poor voice of the smallholders. Their associations are weak, with most out-grower institutions moribund. This leaves farmers with no voice to negotiate with investors and other actors in the two industries. The situation is comparatively better in the flower industry where the Kenya Flower Council work with a number of producers to improve quality and also access markets. The issue of land and related services and infrastructure, as well as marketing seems to be the biggest challenge for many farmers and potential farmers.

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ANNEX

Annex 1: Kenya's Agricultural Policies and Programmes 1964 -2015

Policy Development	Period	Policies and Programmes
Development Plan	1964 -1966	• Growth Oriented development strategy • High wage policy • Equitable income distribution • Population control • Kenyanization • Investment in education and training • Tripartite agreements (1964) • Redistribution of large agricultural farms
Sessional Paper No. 10 of 1965	1965 -	• Kenyanization Policy • Income redistribution
Development Plan	1966 -1970	• Rapid economic growth and development • Income policy • Kenyanization • Wage restraint • Tripartite agreements (1970) • Deepening agriculture • Back-to land policy • Rural industrialization
Sessional Paper No 10 of 1973	1973 -	• Economic growth • Fiscal measures (aimed at changing the relative factor prices in favour of labour) • Provision of infrastructure and other amenities • Rural work programmes • Reorientation of education and training systems to vocational and technical training areas • Improvement of labour market information administration • Productivity promotion • Tripartite agreements (1979) • Promotion of informal and *jua kali* sector
Sessional Paper No 1 of 1986	1986 -	• Economic growth • Equitable distribution of income • Productivity growth • Promotion of informal and *jua kali* sector • Investment in education and training • Reorientation of education and training systems to vocational and technical training areas • Promotion of agriculture and manufacturing sector • Private sector development • Employment and labour market policies
Development Plan	1984 – 1988	• District Focus for Rural Development Strategy • Active labour market policies • Economic growth and equitable distribution of income • Efficient utilization of resources • Focus on agriculture • Export-oriented industrialization
Sessional Paper No. 2 of 1992	1992 -	• Small enterprise and *jua kali* development • Facilitating access of credit, non-financial promotion programmes, market and marketing information, enhancing legal and regulatory environment, and promoting technological development and transfer amongst the MSEs
Sessional Paper No. 1 of 1994	1994-	• Measures for accelerated economic growth and development • Macroeconomic framework • Enhancing acquisition and efficient use of labour market information
Development Plan	1994 -1996	• Job creation in the rural economy, especially agriculture and urban informal sector • Macroeconomic management • Reliance on market forces to mobilize resources for high and sustained growth

		• Government role limited to provision of infrastructure and regulatory framework
Development Plan	1997 -2001	• Rapid industrialization for sustainable development • Macroeconomic management • Industrialization through private sector investment • Promotion of MSEs • Improvement of working conditions • Enhancing participation of employers and workers in promoting industrial harmony • Liberalization of the labour market (removal of wage guidelines)
Sessional Paper No. 2 of 1997	1997	• Industrialization • Promotion of growth and development of MSEs • Infrastructural development • Private sector participation • Productivity promotion
Development Plan	2002 -2008	• Macroeconomic interventions and fiscal measures for high and sustained economic growth • Productivity promotion • Growth and development of the MSEs
Economic Recovery Strategy Paper	2003 -2007	• Private and foreign investment for high and sustained growth • Sound macroeconomic framework/macroeconomic stability • Good governance and rule of law • Infrastructure development • Investment in human capital through education, training and health care • Legal and legislative reforms
Vision 2030 Medium Term Plan 1 Medium Term Plan II	2008 – 2030 2008 -2012 2013 -2017	• Macroeconomic framework • Prudent fiscal policies • Public expenditure management • Private sector investment • Revitalization of agriculture • Infrastructure development • Governance reforms • Policy, legal and institutional reforms • Sound human resource management • Productivity promotion • Promotion of life-long training and education • Establishment of human resource database • Establishment of new technical training institutions • Enhancement of closer collaboration between industry and training institutions

Source: Updated from Omolo (2010)

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