

Impact of COVID-19 Pandemic on Kenya's Horticulture Industry

Status Report Produced by the Horticulture Industry

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Background

The world is experiencing the COVID-19 pandemic, impacting world economies in unprecedented ways. It may be too early to determine the actual long-term impact on supply chains and the Kenyan economy, but what's evident is that the economic impact of the coronavirus outbreak has begun taking hold in Kenya, with businesses and their employees suddenly confronting a harsh new reality of what lies ahead. This is much more defined in agriculture, particularly the fresh produce industry.

The Kenya Horticulture industry is already experiencing the impact on the restriction of movement of people in the destination market countries. Direct sales orders have been cut by more than 50% and sales on the Dutch flower auction are down by 70% and prices are significantly down on reduced demand. Consequently, all Kenyan farms have drastically reduced export volumes to below 70 per cent, with a sizable number suspending exports altogether. With reduced earnings companies are not able to meet the cost of operations. All farms have huge cash flow challenges.

Industry Statistics

Agriculture contributes 24% to Kenya's GDP, 33% of which is contributed by the Horticulture sector, making the horticulture sector one of the leading foreign exchange earners for Kenya. The sector has grown at about 10% - 20% over the last decade, although, growth rates in the 90's appears to be higher than recent growth rates. Export horticulture is essentially a private driven industry, which is commercially-oriented with keenness in compliance with policy and regulation. Thus, high level of self-driven compliance is key.

The horticulture sector employs about 6 million people directly and indirectly predominantly women and youth. Today, 350,000 people are employed directly in farms involved in export, while 3.0 million people are directly involved in production, processing and marketing, while about 3.0 million people benefit through other related activities along the value chain. Due to the intensity of labour involved, the sector continues to create more employment opportunities compared to other agricultural sectors along the value chain from production, packaging, storage, processing distribution, as well as within the marketing segment. The sector also shows promise for the transition of small holder farming into commercial farming.

Horticulture exports earned Kenya Sh144 billion in 2019. The industry earned Ksh. 153 billion in 2018. Earnings from cut flowers in 2019 stands at 104 billion representing 72 per cent, fruits at 13 billion accounting for 9 per cent and Vegetables at 27 billion with 19 per cent of the total sales. Earnings from cut flowers in 2018 stands at 113 billion representing 74 per cent, fruits at 12 billion accounting for 8 per cent and Vegetables at 27 billion with 18 per cent of the total sales.

Despite challenges experienced in 2018 by the sub-sector, the value of exports grew by 33.4 per cent compared to 2017. It earned the country over 153 billion in the sale of flowers, fruits and vegetables to the international market according to figures from

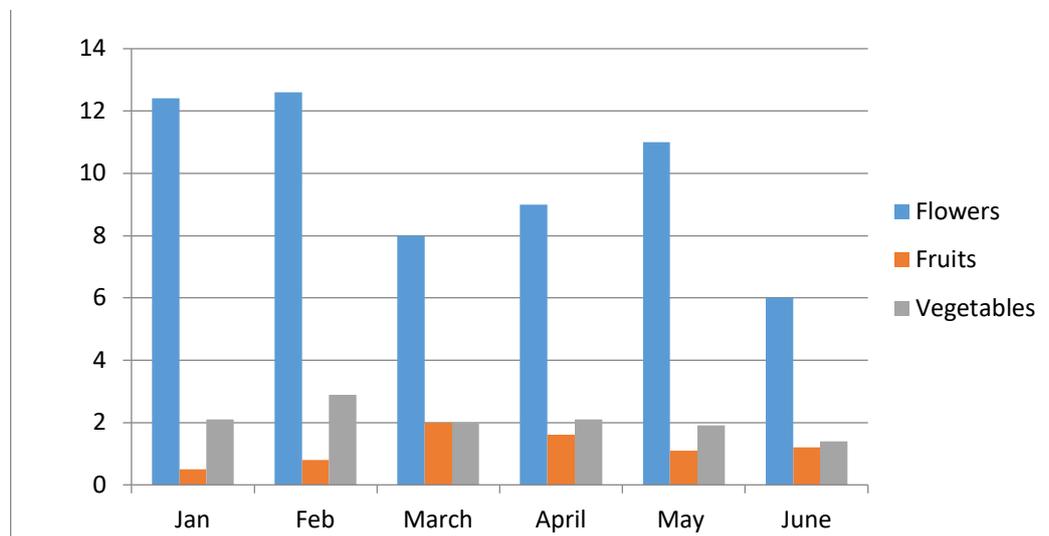
the Horticultural Crops Directorate. Annual sales in the international market stood at 115 billion in 2017.

Impact of COVID-19 on various Segments

Loss of Revenue

For the last one month alone flower farms have lost over 70 % of revenues due to loss of market in Europe. This has been occasioned by the lockdown in most countries and the collapse of prices at the auction. Vegetables and fruits markets remain with minimal activities. Exporters are shipping 25-30 % of the produce while dumping the rest locally. On a monthly basis on average earnings stand at 15 billion shillings

Value of horticulture produce exports for 6 months – Normal year (2018) in billion (Kshs).



Produce	Jan	Feb	March	April	May	June
Flowers	12.4	12.6	8	9	11	6
Fruits	0.5	0.8	2	1.6	1.1	1.2
Vegetables	2.1	2.9	2	2.1	1.9	1.4
Value in Billion Shillings	15	16.3	12	12.7	14	8.6

Currently, the horticulture industry is losing Kshs. 350 Million every day from exports. If the current situation does not improve soon, companies are facing closure, downsizing and inability to meet financial obligations, including inability to service loans, taxes, utilities etc.

Loss of employment for company workers

Most companies have sent home seasonal workers while those on permanent have been given up to 30 days paid leave. Table one below gives an indication of employee classification in the farms.

Size of farm	No of permanent employees per farm	No of seasonal employees per farm
Large Farms	>1000	>3000
Medium scale farms	100	480
Small farms	20	200

The 350,000 jobs are at risk. At the moment, over 150,000 seasonal workers have been sent home, and 80,000 permanent workers are on paid annual leave pending final decisions. The value of the 150,000 workers is a total Kshs. 2.4Billion per month at Ksh. 16,000 per worker.

We are on the verge of witnessing increased poverty, insecurity, hunger, inability of families to meet their basic needs and immigration to urban centres and internationally occasioned by joblessness.

Proposed Mitigation Measures

1. VAT refunds

The industry is pursuing with the national government. VAT refunds currently stands at 14billion Shillings for the sector.

2. Keeping open channels of trade

There is urgent need to keep the corridors of trade open within Europe. Shipments of fresh produce to Germany, France and Italy is a big problem currently with no flights. Freighters need to be facilitated to ship produce from Kenya without restrictions. Further, buyers, especially supermarkets within the EU member states should keep Kenya's produce on the shelves to keep workers on the farms. With many airlines grounding passenger flights by the day, there exists a serious logistical nightmare given that freighters just operate specific routes. In the end, freight costs are going up further diminishing supply.

3. Keeping production ongoing

There is need to continue production locally despite the issue of dumping. If the companies loose out growers, it will be difficult to bring them back to production after the crisis is over. There are about 15,000 out growers engaged. Additionally, ready produce will be required when the situation stabilizes. Currently companies are just producing and destroying produce not able to be shipped. Flowers and edible herbs are most hit with near zero shipments while vegetables and fruits currently at 20-25 % shipments are registering shrinking orders as most parts of Europe continue to impose strict quarantine measures to curb the spread of the pandemic.

4. Provision of food and housing grant for employees

We are appealing for emergency assistance to the industry to keep operations at least at bear minimum. The horticulture sector is both labour and capital intensive but has a quick turnaround on crops. It is imperative for companies to meet cost plans in order to prevent complete closure. We propose a 3 months' payment of workers at an average of Kshs. 16,000 for at least 200,000 who are likely to be jobless in the meantime. Companies should be cushioned from letting go employees, so as to keep a core of the highly skilled labour trained over a long period of time. Currently most seasonal staff have been released while the permanent ones are on paid leave while others have been asked to stay home. Ultimately, staff will be retrenched/ declared redundant if this situation persists.

5. Postponement of implementation of SPS regulations of December 2019

We propose a consideration to temporarily move forward or set aside the implementation of the SPS regulations imposed by the EU for residue limits at LOD effective December 2019. This will reduce potential rejections especially for small holder farmers and make more fresh produce available. With the situation in Italy and Spain, there may be shortages in food especially vegetables produced in southern Europe. We need the small holder farmers in Kenya to be kept afloat so that they can still provide produce when the supply restrictions ease.