PROMOTION OF PRIVATE SECTOR DEVELOPMENT IN AGRICULTURE

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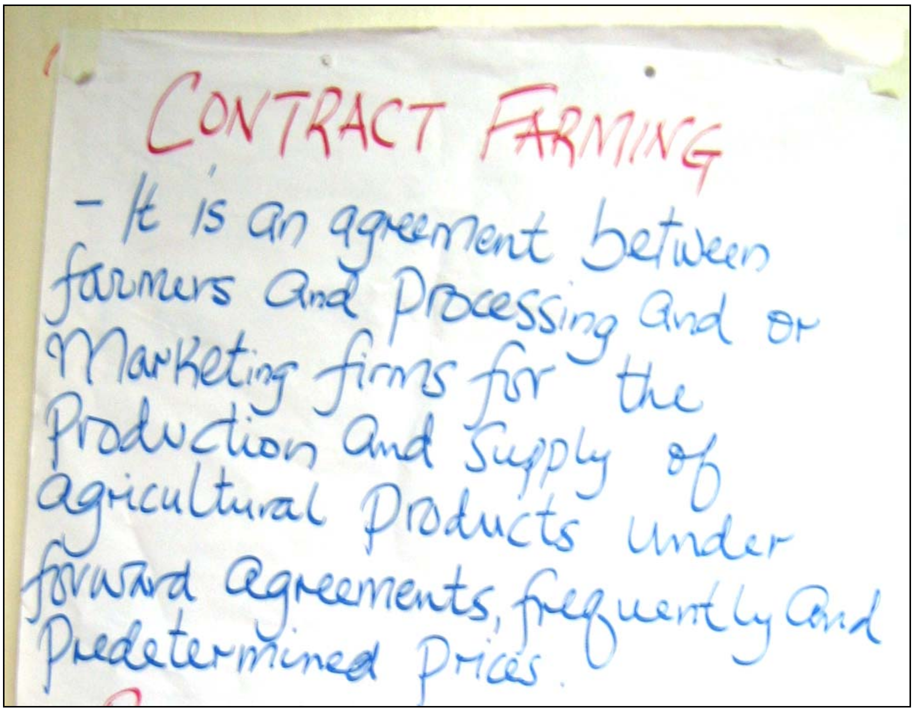
Contract Farming in Kenya: Theory, Evidence from selected Value Chains, and Implications for Development Cooperation



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About the authors

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About PSDA

"Promotion of Private Sector Development in Agricultural" (PSDA) is a bilateral development programme, implemented jointly by GTZ and the Ministry of Agriculture (MoA), in strong collaboration with the Ministry of Livestock and Fisheries Development (MoLFD) and the Ministry of Cooperative Development and Marketing (MoCDM). The programme started in 2003. The target group are market oriented farmers and medium and small enterprises involved in agribusiness and their respective organisations. The geographical coverage includes the high and medium potential areas in Central, Rift Valley, Eastern, Nyanza and Western Provinces. The programme aims at improving the access to markets for small and medium agribusiness players. The value chain concept forms the conceptual framework and is applied on eight agricultural products and their respective value chains.

About this Report

This report is seen as a working document, prepared for PSDA and the Contract Farming Task Force in the Ministry of Agriculture, Kenya. These research findings were presented to the Task Force and a stakeholder forum in January 2006. We are grateful for the lively discussion that clearly enriched this report.

Please send us your comments, additions, observations, corrections and suggestions for future work addressed to: heike.hoeffler@gtz.de and copied to kathrin.strohm@web.de.

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List of Abbreviations

CF	Contract Farming
DED	German Development Service (Deutscher Entwicklungsdienst)
EurepGap	Euro Retailer Produce Working Group and Good Agricultural Practice
FAO	Food and Agriculture Organisation of the United Nations
GTZ	German Technical Cooperation (Gesellschaft für technische Zusammenarbeit)
HCDA	Horticultural Crops Development Authority
KACE	Kenya Agricultural Commodity Exchange
KARI	Kenya Agricultural Research Institute
Kenfap	Kenya Federation of Agricultural Producers
MoA	Ministry of Agriculture, Kenya
NEPAD	The New Partnership for Africa's Development
PSDA	Promotion of Private Sector Development in Africa
S.H.G.	Self Help Group, registered with the Kenyan Ministry of Culture and Social Services

Exchange Rate

In the end of 2005, the exchange rate was approximately: 1€ ~ 87 Kenya Shillings

Summary

This report takes stock of the existing literature and current activities concerning contract farming in selected value chains in Kenya. The objective is to better understand the development potential of contract farming arrangements and which role they can play in the promotion of agricultural value chains.

Chapter 1 presents the background to the study, its research design and hypotheses.

Chapter 2 provides the theoretical background to contract farming and describes different models and types of arrangements. The literature overview summarises part of the existing research on contract farming. A significant amount of applied research concerning various aspects of contract farming has been conducted in recent years - in developing countries in general, as well as in Kenya in particular.

Chapter 3 presents the results of empirical field work, which consisted of 29 interviews carried out with farmers, producer groups, exporters and processors along five value chains (French beans, mangoes, passion fruits, potatoes and poultry). The description of the various contract farming arrangements in these value chains reveals that the organisation can differ significantly and depends very much on the commodity in question, the location of the farmers, the requirements, financial viability and operational experience of the buyer.

Chapter 4 analyses the field finding. It shows that a number of factors influence the performance of contract farming arrangements and analyses success factors and common reasons for failure. Apart from the product type, geographic location and access to infrastructure, socio-economic factors were found to play a very central role. Horticultural production for international marketing channels, as well as some national markets is increasingly subject to food safety standards, which increases the need for contractual arrangements for control and traceability purposes.

Chapter 5 concludes that in future, contract farming in Kenya is likely to become more important and will be applied in more value chains, since international marketing channels remain of big importance and domestic food production as well tends to serve higher value market segments, i.e. supermarket chains and (fast food) restaurants. Furthermore, the study points out areas where the Kenyan government, together with private sector and development partners should engage to support that contract farming arrangements contribute successfully to agricultural sector development.

Besides the Terms of References for the study, the list of interview partners and the questionnaire used, the **appendices** contain three lists of selected literature for further reading in the areas of contract farming in Kenya, related research on agribusiness in Kenya, and contract farming in developing countries in general. Additionally, the Kenyan Code of Conduct for Fresh Horticultural Produce Sales and a sample contract are attached.

1 Introduction

Small-scale farmers often face difficulties in production and marketing of their produce. They usually sell their produce individually at the farm gate to middlemen or on local markets at given prices. This reduces farmers to price takers irrespective of the costs they incur in the production and marketing process. Furthermore, they must bear the high risk of not being able to market the entire amount of their produce.

On the other hand, processors often are not able to procure the quantity and quality of the product they are looking for.

Contract farming (CF) is a possibility to improve such a situation. It is one form of vertical co-operation along value chains where a farmer or producer organisation co-operates with a marketing partner (wholesaler or agro-processor) by stipulating regulations and mutual liabilities within a contract on the production, supply and acceptance of the agricultural produce. Contract farming as a tool has existed for many years as a means of commercially organizing agricultural production of both large-scale and small-scale farmers. In countries that previously followed a central planning policy, and in those countries that have liberalized marketing through the closing down of marketing boards such as Kenya, interest in CF is rising (Eaton and Shepherd, 2001).

In Kenya, several development agencies, including GTZ, provide support to agribusiness services as one major area of support. In promoting the development of the private sector in agriculture, the value chain approach represents one conceptual framework as a starting point. The support of contract farming, or the creation of farm-agribusiness linkages, in turn is one specific tool to promote certain value chains.

Changes in consumption habits, such as the increasing number of fast-food restaurants, the growing importance of supermarkets in many countries, and the continued expansion of world trade in fresh and processed products, have also provided the impetus for further development of this mode of production (Eaton and Shepherd 2001). This is because well-managed contractual agreements can help reduce transaction costs as well as risks on both sides. In addition, the fulfilment of standards increasingly required by international buyers can be more easily controlled in contract farming arrangements. Thus, traceability of the food chain is one important incentive to enter into contract farming ventures. The ultimate objective is to achieve a sustainable long-term collaboration between producer / producer organisation and the marketing partner, resulting in a win-win situation for both sides and based on mutual trust.

1.1 Objective and Justification

Currently, there is insufficient information available on the state of contract farming in Kenya and respective success or failure factors. The way in which contract farming can achieve the development of stable business relationships is equally unknown. Moreover, the role development partners could and should play in CF remains is unclear. Therefore, there was need to carry out a study with a view to determining the best way forward with respect to CF.

First, a literature review around contract farming and related issues was completed.

Despite the significant amount of research undertaken (refer to 2.3.2), Kenyan practitioners do not seem to be aware of these works and their results. One reason might be that some publications are based on least square or equilibrium analysis, which might be too sophisticated for day-to-day activities of Ministry of Agriculture officials, development partners or the agribusiness community. Furthermore, most literature deals with horticultural export crops only, neglecting products, which gain importance for the domestic market such as potatoes or livestock products.

Secondly, the study aimed to answer the following questions:

1. What is the state of contract farming in selected value chains in Kenya?
2. Which factors determine success and failure of contract farming (i.e. type and attributes of products, regional location, socio-economic factors of involved farmers)?
3. How can trust building between buyers and sellers be achieved and thus honouring of the contract enhanced?
4. How important is the legal framework for CF to exist and/or to become more common?
5. What does the ideal contract look like and which obligatory elements should it contain?

The study should contribute to the understanding of these factors that impact on contract farming. This study is expected to provide the PSDA programme and other interested stakeholders with valuable information about the mechanisms of and the state of contract farming in Kenya (stocktaking of existing literature, investigation of non-export value chains collection of contracts and the particular analysis of the role PSDA and other development partners could play in this context). The study should provide the reader with a better understanding, views of the involved parties including their characteristics, strengths, comparative advantages (where they exist) and the assessment of inefficiencies in contract farming. The investigation into contract farming will help the PSDA Programme to identify possible areas for support to farmers and the agribusiness sector to improve the environment for private sector development and thus, strengthen the competitiveness and growth potential of producers. Ultimately, the results of the study should indicate opportunities and potential areas of intervention, and pinpoint activities to be undertaken by private sector, public sector stakeholders and the possible role of development partners in value chain coordination.

For further information, refer to the terms of references of the study in Appendix 1.

1.2 Methodology

As methodology, this study on contract farming mainly used key informant interviews combined with a literature review. Before the development of the study, four horticultural farmer groups were visited in the field and thus valuable information gathered which helped in focusing the study and formulating its objectives. In addition, the participation in the NEPAP conference *Contract Farming: Expanding Agri-Business Links with Smallholder Farmers in Africa*[1] provided an insight into the perspectives and experiences of different stakeholders of a number of African countries. Literature collected at the conference and through own literature research as well as continuous discussions with PSDA team members and the members of the *Kenya Contract Farming Task Force* in the Ministry of Agriculture contributed to this study.

The interview partners for the field survey were selected along five value chains that are currently supported by the PSDA programme, namely French beans, mangoes, passion fruits, potatoes and poultry. The interviewed farmer groups are groups PSDA had been working with before e.g. facilitated in attending “Farming as a Business” trainings or value chain mapping workshops. Furthermore, partners such as Daniel Mwenda from Kenfap and Hermann Kamprath from DED made contacts to other groups. Since the sample was selected non-randomly,

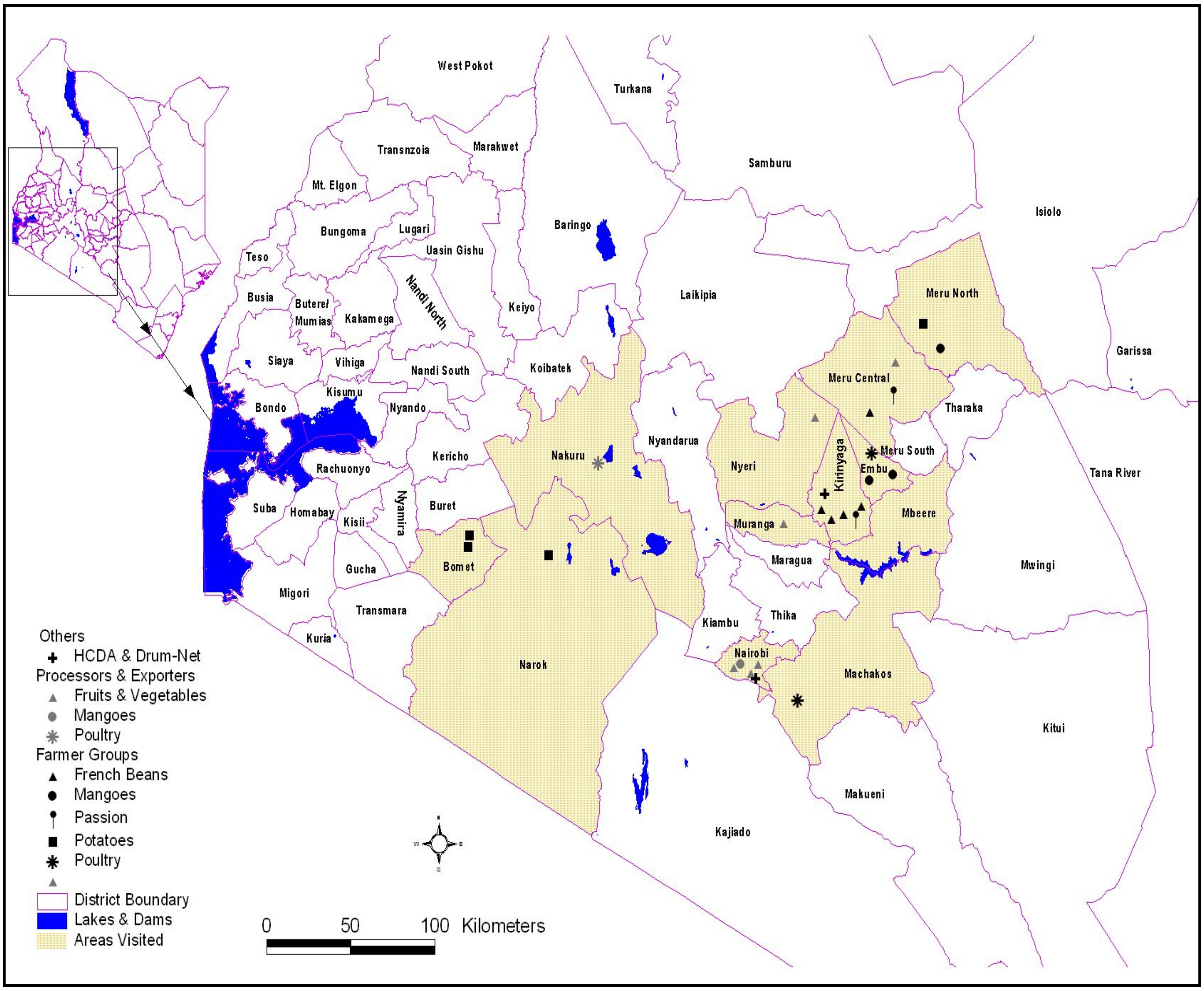
[1] This conference was organised by the NEPAD agricultural secretariat, the Comprehensive African Agricultural Development Plan (CAADP). It was held from November 22nd-25th 2005 in Entebbe, Uganda.

this report can only provide a small and selective picture of the real world. Despite its methodological limitations, the report provides in-depth insides into existing arrangements and offers explanations of the phenomena around contract farming. The analysis was done with the particular objective to advise on the promotion of CF arrangements in the value chains the PSDA programme is working with.

In order to get a conclusive and fair insight of the contractual arrangements in these value chains, interviews were conducted with both, farmers and buyers where ever possible.

Between November 2005 and January 2006, 17 farmer groups and individual farmers, six buyers including fresh exporters and processors and three institutions such as HCDA were interviewed. Appendix 2 provides a detailed overview of the interview partners including information about the existence of contractual relationships, and their location.
For the interviews, a questionnaire was developed as guideline, which is attached in Appendix 3. All contact information for the interview partners as well as key resource persons who could not be interviewed are listed in Appendix 4.
Figure 1 illustrates in which areas and concerning which value chains interviews were conducted for this study on contract farming.

Figure 1: Research Areas



Source: George Awinyo, PSDA.

1.3 Research Hypotheses

After reading some literature and after having gained first impressions in the field, the following hypotheses were built:

1. CF is mainly common in high potential production areas (e.g. around Mt. Kenya) since irrigation possibilities and climate provide good quality crops and a steady supply.
2. Contract farming is of particular importance to export horticulture. Standards to be met such as EurepGap are more easily monitored through CF arrangements.
3. Good infrastructure such as proximity to good roads and the main marketing centre, in case of Kenya its capital Nairobi, are important determinants. Therefore, the poorest of the poor farmers who live in underprivileged areas cannot benefit from possible CF advantages.
4. CF farmer groups need to be already well established in order to be successful and reliable partners for agribusiness firms.
5. The higher the education level of the farmers, the better equipped they are to deal with contractual arrangements, understand the importance of honouring the contract, and negotiate with the contract partners.
6. The better farmers are organized e.g. in an organisation like Kenfap, the more support they get from there, and the better the legal framework of the respective country is, the more likely is that farmers would take some legal action against partners that breach the contract.

2 Background: The Theory of Contract Farming in Africa

During the last 15 years, a significant amount of research has been conducted in the field of contract farming and related issues such as linking farmers to markets, horticulture export marketing and quality standards. Contract farming has existed for many years not only in developed but also in developing countries. Agribusiness firms are increasingly involved in global trade of agricultural products such as fruits, vegetables, flowers and many more. The importers and the final buyers such as supermarkets in Europe, the Middle East or other important trading partners of Kenya more often require exporters from developing countries to comply with standards such as EurepGap. Therefore, in the last years, standards and in particular the implementation of EurepGap regulations have gained in importance (Eaton and Shepherd, 2001). In this context, contract farming is discussed as a tool to better control the compliance of farmers with production techniques and food safety standards (Humphrey, 2005).

Contract farming arrangements can be classified into four basic models, which shall be explained in more detail in the course of this chapter. The intensity of the different contractual arrangements varies; some are rather informal and based mainly on mutual trust and verbal agreements, while others have developed contracts as documents to formalize the cooperation.

2.1 Definition of Contract Farming

Contract farming is practiced in different models and has been defined in various ways. Key and Runsten (1999, 382) define it as '*an intermediate institutional arrangement that allows firms to participate in and exert control over the production process without owning or operating the farms*'.

Another definition explains it as a '*system where a central processing or exporting unit purchases the harvests of independent farmers and the terms of purchase are arranged in advance through contracts*' (Baumann, 2000).

Eaton and Shepherd (2001) define contract farming as '*an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices'*. The arrangement often *'involves the purchaser in providing a degree of production support through, for example, the supply of inputs and the provision of technical advice'*. For this arrangement to work the farmer commits himself to *'provide a specific commodity in quantities and at quality standards determined by the purchaser'*. The company on the other hand agrees to *'support the farmer's production and to purchase the commodity'*.

In more simple terms, contract farming can be regarded as a partnership between agribusiness companies and farmers.

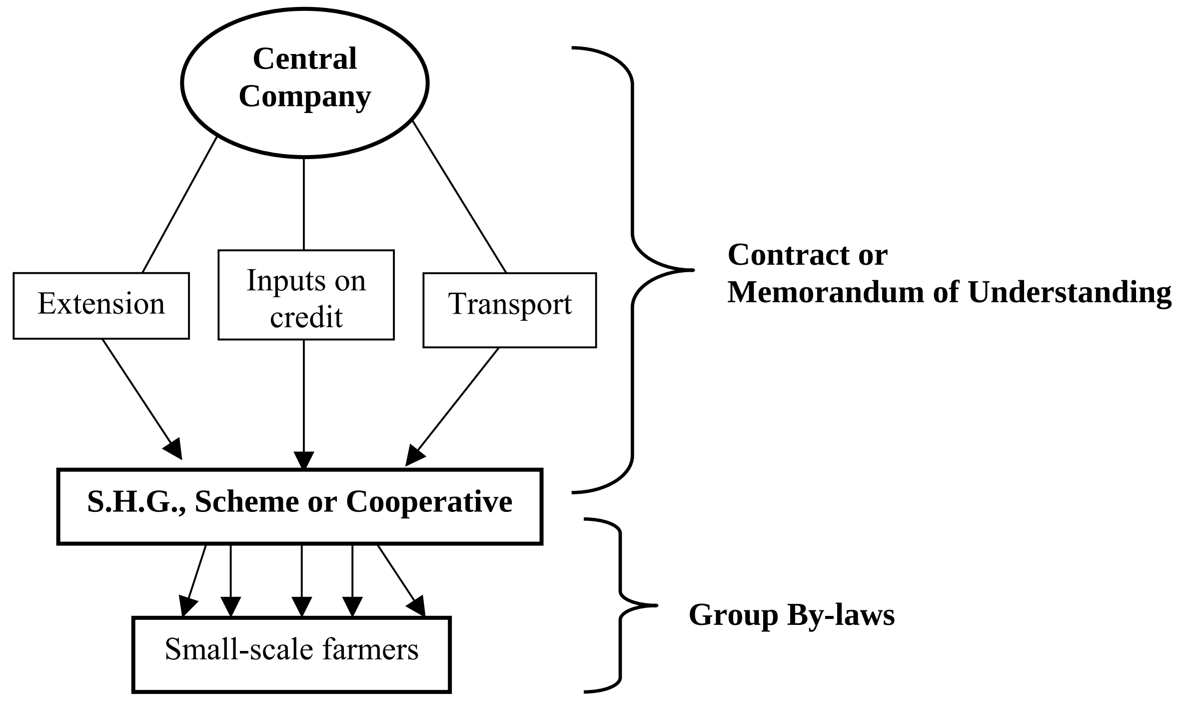
The intensity and formality of the contractual arrangement varies according to the depth and complexity of its organisation. On the one hand, buyers and producers might cooperate irregularly based only on verbal agreements with no further assistance concerning input supply and extension. A more formalized system specifies the transactions and responsibilities of both parties in a contract document. The farmer normally provides land, labour and tools while the buyer often supplies inputs on credit, extension services including trainings on grading and is responsible for marketing and transportation of the produce. In addition to these, the contract also mentions the quantity and quality requirements for the cultivated crop, prices, technology application etc. (Ochieng, 2005b).

Outgrower or contract farming **schemes** can be seen as a special form of CF, which in the past was often introduced by governments (Ochieng, 2005b). These days, private enterprises run schemes in order to more closely control and monitor the farm operations. In contrast to contracted groups, grading centres for horticultural produce are managed and sometimes even financed by company staff. Professional graders support the farmers during the grading procedure and the centres often operate daily. The company strictly regulates the input supply and through its presence on the ground provides extension services more often. Well-developed schemes can sometimes reach out to thousands of outgrowers.

2.2 *Contract Farming Models*

Contract farming relationships can be distinguished according to the parties involved and the way they are organized e.g. who provides technical support, manages the finances and is in charge of the transportation. Eaton and Shepherd (2001) distinguish four types of CF: informal, centralized, multipartite, and intermediary model.

Figure 2: Centralized Model of Contract Farming



Examples in Kenya
Frigoken Limited, Homegrown, Greenlands Agroproducers, Njoro Canners, Kim's Poultry Care Centre

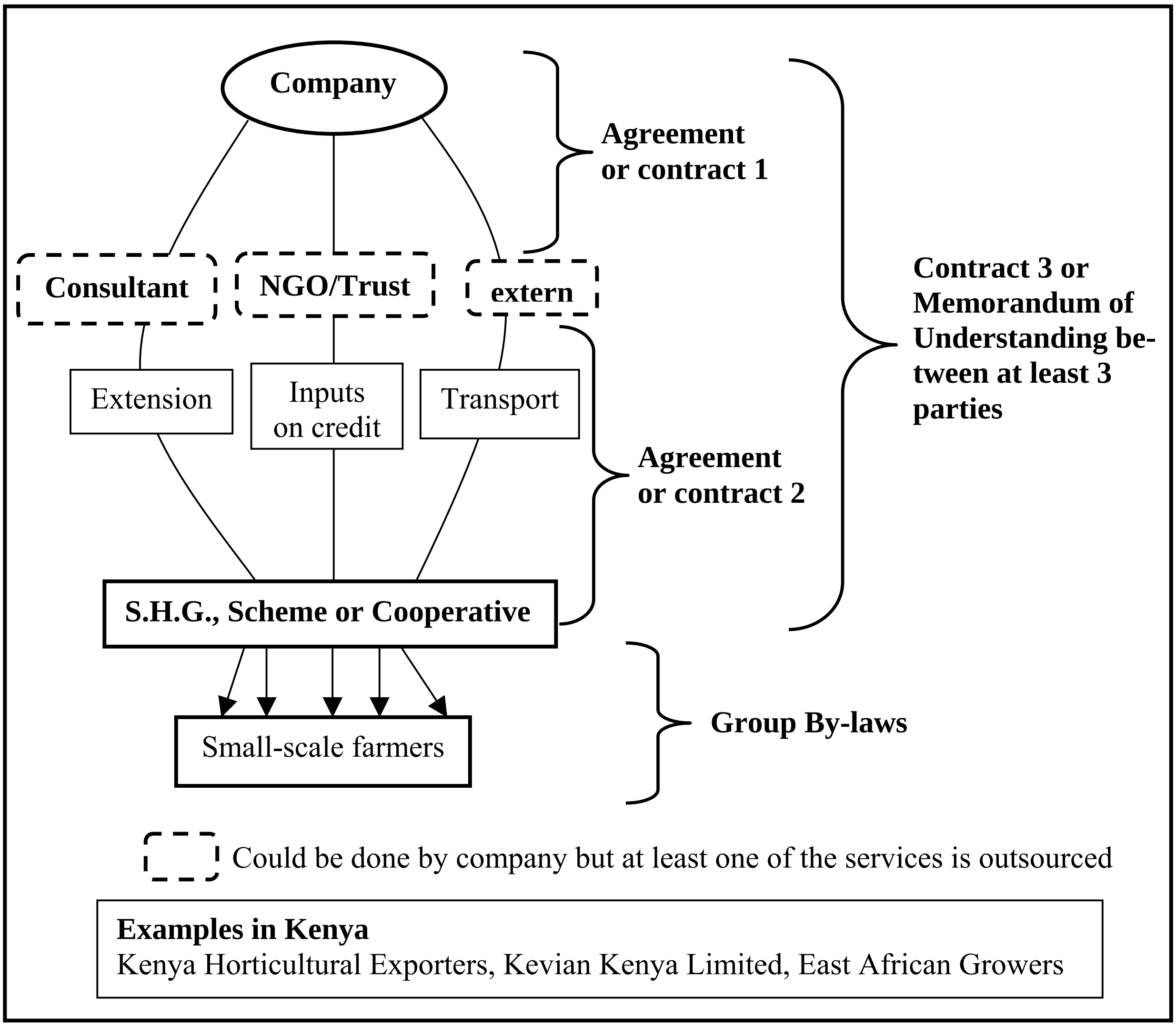
Source: Own illustration - adapted from Eaton and Shepherd (2001).

The **centralized model** (Figure 2) involves a centralized processor and/or buyer procuring from a large number of small-scale farmers. The cooperation is vertically well integrated and most of the time several services such as pre-financing of inputs, extension and transport are provided.

The centralized model is particularly used by the larger companies in Kenya such as Frigoken, Greenlands and Homegrown, all dealing with vegetables and partly with fruits for the export market. All these companies handle the payment of the farmers through their own financial departments.

If a combination of two or more organisations (state, private agribusiness firms, international aid agencies or non-governmental organisations - NGOs) is necessary to coordinate and manage the cooperation, then this can be regarded as a **multipartite** contract farming **model** (Figure 3).

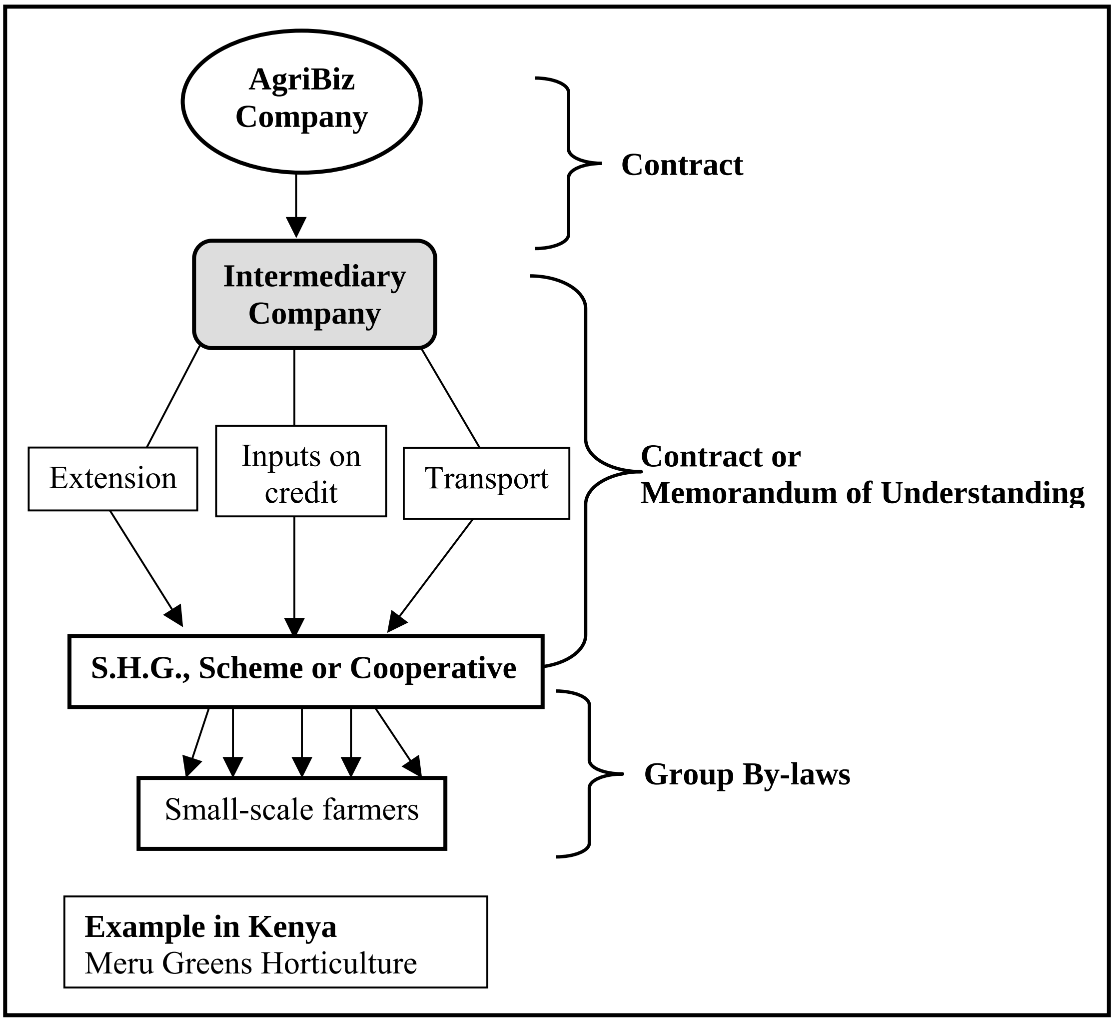
Figure 3: Multipartite Model of Contract Farming



Source: Own illustration - adapted from Eaton and Shepherd (2001).

In Kenya, companies like Kevian ltd. and Kenya Horticultural Exporters work with other institutions such as Drumnet (NGO), Kenya Gatsby Trust, or other development projects, which connect them to small-scale farmers and handle part of the finances. Multipartite CF is particularly helpful when establishing a new venture. Once the cooperation between the firm and the farmers is working well, the link parties can be circumvented and so the multipartite slowly develops into the centralized model.

Figure 4: Intermediary Model of Contract Farming



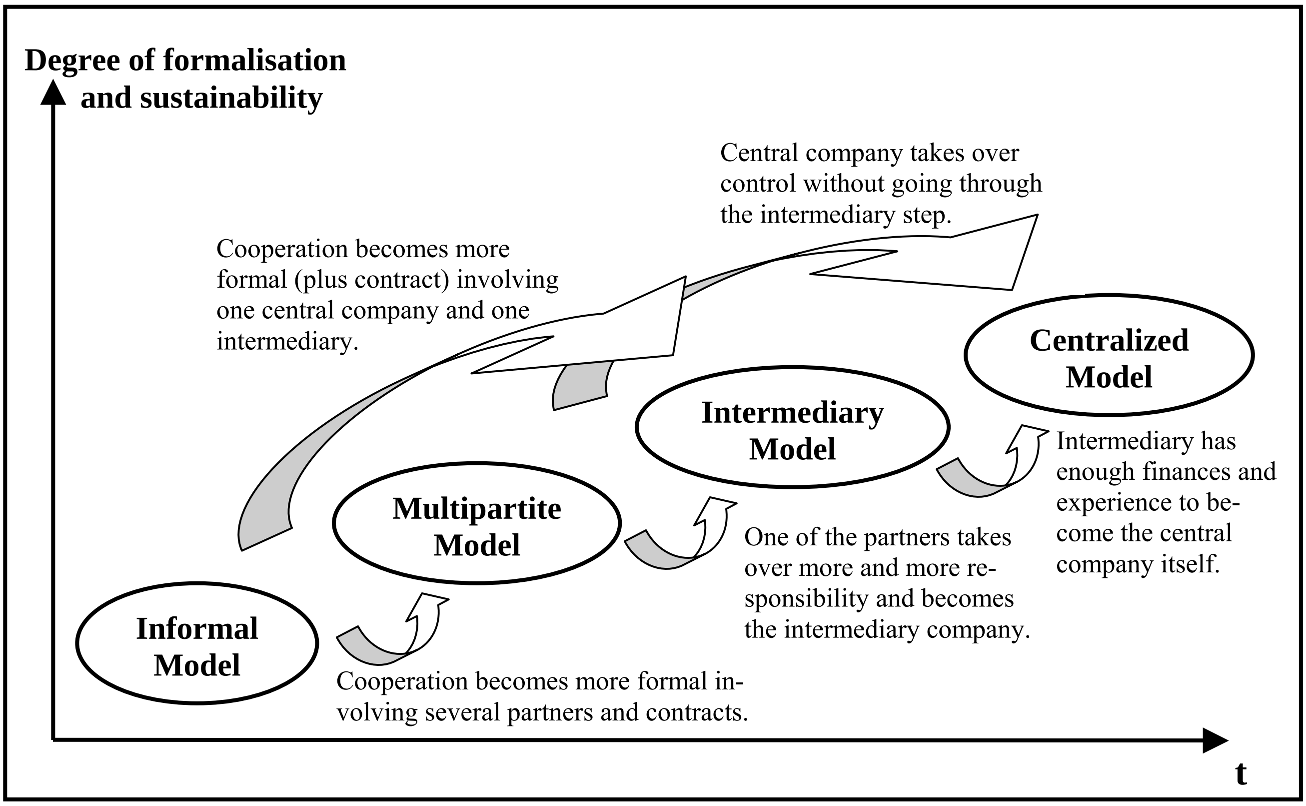
Source: Own illustration - adapted from Eaton and Shepherd (2001).

Meru Greens Horticulture show many characteristics of a centralized model with the difference that they act as an intermediary on behalf of Frigoken (agribusiness company) and do not yet export themselves. They are therefore classified within the **intermediary model** illustrated in Figure 4. The distinction between the multipartite and intermediary model is relatively small. Normally, intermediaries organize everything on behalf of the final buyer starting with input supply, extension service, payment of the farmers and final product transport. Handling several thousands of outgrowers involves significant management effort and therefore it might be economically attractive for a buyer to outsource this task to an intermediary.

Other companies such as Indu-Farm, Deepa Industries and partly Steers, which do not have as much working capital as the bigger companies engage external transporters for the logistical part. Furthermore, some of them do not issue contracts for their transactions, and only interact irregularly with the farmers, which places them somewhere in-between the centralized and the **informal model**. Informal arrangements vary between casual oral agreements and regularly repeated marketing transactions but are characterised by the absence of written contracts or equally binding and specifying documents.

Our empirical results illustrate that there is a smooth transition between the different models. Many contractual arrangements seem to have started on rather informal terms. In case of success, establishing and formalising the agribusiness venture is then often undertaken in collaboration with various partner organisations (multipartite model) to secure investment, particularly investments into capacity building (e.g. farmer trainings) and credit supply. In case of success, these arrangements might be streamlined by limiting the cooperation to one crucial service provider (intermediary model). In the course of the business operation, as contract partners grow in expertise and trust however, all models could eventually develop into a centralised (direct) model. Figure 5 illustrates these sequences of possible transition of models over time.

Figure 5: Contract Farming - Transition of Models over Time



Source: Own compilation.

Table 1 in Chapter 3 gives another overview on the four models and the various cooperation forms between farmers and buyers as encountered during the study.

2.3 State of Research on Contract Farming

The available literature on contract farming has been composed from different ideological perspectives. Thus it can be distinguished according to the point of view it was written. Some examine CF from specific individual project perspectives, such as the review of the Commonwealth Development Corporations smallholder schemes written by Ellman (1986). More theoretically oriented literature examines contract farming in terms of agrarian transition. A more policy-oriented part of the literature has focused on policies and strategies for promoting the development of agro-production.

For further information, refer to Baumann (2000) and Ochieng (2005a) who provide an comprehensive literature overview (see also literature lists in Appendices 5, 6 and 7).

The literature covers a broad range of topics, such as
- Motives for companies and farmers to enter into contracts
- Unequal relationships in CF (farmers ↔ agribusiness firms)
- Exploitation of farmers or opportunity to raise living standard
- Impact of CF on regional development and those not included in contracts
- Roles of different actors (e.g. state, agribusiness, NGOs, aid agencies)
- Productivity effects, efficiency
- Impact on income distribution
- Contract negotiation and bargaining behaviour
- Gender implications
- CF and environmental impacts

2.3.1 Selected Literature – Contract Farming in Developing Countries

In respect to literature worldwide, in particular the work of the Food and Agriculture Organisation of the United Nations (FAO) needs to be mentioned. The FAO deals with contract farming under the broader aspect of *Agricultural Marketing*, which in turn belongs to the *Agricultural Support Systems Division*. Eaton and Shepherd (2001) compiled a guide titled *Contract Farming: Partnership for Growth*[2], which is meant to give advice in various directions. On the one hand, it can help existing contract farming companies to improve their management system and give those commencing CF valuable information on what to consider. Promoters such as governments and development partners are another target group of this publication. In six major chapters the guide tackles advantages and problems as well as preconditions for CF, explains different CF models, mentions contract specifications, and methods of management and monitoring of CF ventures.
Besides contract farming in particular, this FAO division also provides information about the related topic *Linking Farmers to Markets*. In this context, FAO has published proceedings of an expert consultation in Nairobi in 2003 called *Strengthening Farm-Agribusiness Linkages in Africa* highlighting case studies from five African countries including Kenya.

The findings of a study on contract farming conducted by the International Development Research Centre (IDRC, Canada) and edited by Glover and Ayako were published in the special issue of the *Eastern African Economic Review* in August 1989. This cross-national study focused on Eastern and Southern Africa and provided some of the most detailed information available on grower incomes and returns as well as marketing and production costs (Glover and Ayako, 1989).
The often cited book *Living under Contract: Contract Farming and Agrarian Transformation in Sub-Saharan Africa* provides valuable information through a number of case studies, some of which are from Kenya (Watts and Little, 1994).
Small Farmers, big Business: Contract Farming and Rural Development by Glover and Kusterer (1990) is another notable comparative case study which tried to isolate the determinants of smallholder welfare in outgrower schemes (Glover and Kusterer, 1990).
Stringfellow examined factors which are critical to the success of contract farming operations and draws on experiences in Malawi and Zambia (Stringfellow, 1996)
The international journal *World Development* published a range of articles dealing with contract farming topics and accessing its economic as well as social impacts.
For further research done on CF in developing countries refer to the literature overview compiled in Appendix 5.

[2] as PDF download at: http://www.fao.org/ag/ags/subjects/en/agmarket/contractfarming.html

2.3.2 Selected Literature – CF in Kenya

Books and papers published all over the world mention case studies from Kenya because contract farming arrangements seem to be more developed in Kenya than in other African countries and thus information is more easily available. For the particular case of Kenya, a selection of literature shall be mentioned in the following.

In 1997, the Horticultural Crops Development Authority (HCDA) published the *Code of Conduct*, which is meant as a blue print memorandum of understanding between the buyer and the seller of fresh horticultural produce and to serve as a guideline for both parties in order to conduct good business practices. Furthermore, it mentions 17 important points, which provide a framework to the development of a legally binding contract (see Appendix 8). In addition, while HCDA was still engaged in its own marketing operations, it has developed a generic contract, which can serve as a basis to develop contracts for the specific cases (Appendix 9).

Ochieng (2005a) conducted a PhD research about *The political economy of contract farming in Kenya* and presented the part of the Kenyan experiences in the tea and sugar sector as *Keynote Speech* at a NEPAD Contract Farming Workshop in Entebbe/Uganda (Ochieng, 2005b).

The Tegemeo Institue for Agricultural Policy and Development (Egerton University, Kenya) has published a number of studies concerning the horticultural sector where contract farming is also touched on (Appendix 7).

3 Empirical Evidence: State of Contract Farming in Selected Value Chains in Kenya

Chapter 3 summarises the findings of the contract farming study in five selected value chains in Kenya obtained from the interview partners listed in Appendix 2.
For the small sample surveyed, it will be shown that depending on the value chain and the company involved, the cooperation with farmers is often managed in a slightly different way and falls under one of the CF models introduced in section 2.2.

A summary of field findings is provided in section 3.6.

3.1 French Beans and other Horticultural Export Crops

For the French beans value chain, which includes other horticultural crops such as snow peas and sugar snaps, a number of interviews were conducted with farmer groups, and where possible, buyers, in the Mt. Kenya region. Section 3.1 will thus illustrate the various arrangements practiced in this sector in Kenya in 2005, which the study could identify from its narrow and non-random sample.

- **Frigoken Limited:** procures its horticultural produce for canning in four different ways. The headquarters in Nairobi, the Murang'a scheme and three contract groups were visited.
- **Meru Greens Horticulture:** contracts small-scale farmers in schemes as an intermediary on behalf of Frigoken.
- **Indu-Farm Limited:** contracts groups/projects. One group and the headquarters including the packhouse in Nairobi were visited.
- **Homegrwon Kenya Limited:** one contracted group was interviewed.
- **Kenya Agricultural Exporters:** one contracted group, which deals with Drumnet as NGO was interviewed.
- **Highlands Canners Limited:** one contracted group (cooperative) was interviewed.
- **Greenlands Agroproducers Limited:** interview with Managing Director.

3.1.1 Frigoken Limited

Frigoken Limited, established in 1989, is '*a member of the Industrial Promotion Services (IPS), group of companies, which is in turn a member of the Aga Khan Fund for Economic Development (AKFED). AKFED is an international development agency that promotes private sector entrepreneurship in the developing world, especially in Sub-Saharan Africa and South-East Asia. AKFED is also affiliated to the Aga Khan Development Network, an organisation dedicated to improving human living conditions, strengthening cultural foundations and promoting corporate social responsibility*'.[3] Frigoken is currently the largest producer of premium quality processed vegetables in Kenya. Frigoken's customers include a broad range of leading European companies, supermarket chains, as well as one of the largest vegetable processor in Europe, Bonduelle.
In its Nairobi plant, processing over 10,000 tonnes of vegetables per year, Frigoken produces a range of canned, jar and frozen vegetables such as French beans, snow peas, baby corn etc.

[3] www.frigoken.com/html/about.html

In order to secure a continuous supply, a yearly planning programme is prepared in Nairobi and then broken down to the field officers and supervisors who then implement it on the ground. In case of weather problems, the programme is adjusted.
Frigoken purchases 100% of its produce through contractual arrangements with mostly small-scale farmers, but also larger scale farmers and intermediaries. The commercial contracts for every category have a different design.
Frigoken has four categories of purchasing produce and thus contracting farmers, while applying always the same quality standards. Frigoken is a well-established and experienced company and mainly acts as the central company in the centralized model, which was introduced in Section 2.2. However, for part of its produce it subcontracts Meru Greens as an intermediary to work on its behalf. Thus, Frigoken's management is relieved of dealing with thousands of additional small-scale farmers who supply them through Meru Greens.

3.1.1.1 Scheme

In a scheme, Frigoken contracts the farmers individually and not in groups. They are given commercial contracts, spraying/fertilizer programmes as well as memos to improve the management.

The scheme is the least economical way of raw material supply for Frigoken and the category, which is the most difficult one to manage. However, since Frigoken is a member of the Agha Khan Fund for Economic Development (AKFED) Frigoken has a strong social mandate and a focus on the small-scale farmers. *'Loans are provided to the farmers by the non-profit Aga Khan Agency for Microfinance to assist them with financial needs that arise prior to receiving harvest revenues.'* [4]

Every scheme is managed via a number of **buying centres, which** are further subdivided into several sections. Each buying centre operates all year round completing in total roughly five planting seasons. Every farmer attached to one buying centre has to plant within a period of four days to ensure uniform planting, spraying and final harvesting.
For every planting, a **demonstration plot** is set up (one main one and a smaller one in every section). In meetings with farmers, proper planting techniques are demonstrated (particularly to the new farmers) and any issues or problems (e.g. crop husbandry, out-selling) are discussed. The demo plots are used to monitor the performance of the crop, predict picking and the prevalence of pests. A demo plot has the account number one so its records can easily be assessed. The location of a demo plot depends on the willingness of the farmers to do it and they should be committed farmers caring about their crop.
Frigoken staff, extension officers who inspect the crop and supervise the spraying, manage each centre and are also responsible for recruiting new farmers and prolonging the contract with the old ones. Before every planting, the staff spend around five weeks in the field to finish the recruiting procedure. Determinants are mainly who has free land and who is willing to plant for Frigoken.
The contract within the scheme is crop and not time based. Thus, a usual **contract runs for 2-3 months.**
Every farmer participating in the scheme can only plant a **maximum of 1kg of French beans seeds per planting**, which cultivates an area of approx. $225m^2$. This is due to several reasons: firstly, Frigoken through the scheme system wants to support small-scale farmers. Small-scale farmers normally do not have more land for cash crops available than can be planted with 1kg. French beans are also very labour intensive and Frigoken wants to ensure that the farmers are able to cultivate their land with their own family labour and are not forced to hire la-

[4] www.akdn.org/agency/akfed_indpromo.html

bour. Furthermore, beans require a crop rotation system in order to achieve required yields and quality levels. If Frigoken allowed the farmers to plant more than 1kg, it is likely that there would be not enough additional land available for the rotation. The entire amount of 1 kg of seed given to the farmer is planted immediately.

Frigoken pre-finances inputs such as seed and fertilizer and furthermore meets the labour costs for the crop spraying, while farmers need to pay for the pesticides. The costs for 1kg of seeds and the required inputs to cultivate it add up to 700Ksh.

Most farmers participating in the scheme practice "bucket irrigation". Rough guidelines concerning water quality exist. However, in the Murang'a scheme trials with drip irrigation will be conducted soon.

Picture 1: Different French beans quality categories

Source: Kathrin Strohm

Farmers usually pick the beans in the morning hours and then bring them to the buying centre in the afternoon. In order to assure quality, farmers are given quality specification sheets stating which quality is rejected and which is accepted. In addition, practical examples of beans hanging in the grading centres demonstrate which beans are bended, too thin or too long for instance (picture 1) and therefore will not be accepted by Frigoken.

Picture 2: Grading procedure

Source: Kathrin Strohm

In the grading centre, Frigoken staff (wearing green uniforms), supervise and assist the farmers in their grading procedure (picture 2).

If there is rejection it will take place in the buying centres directly in the field and the farmer can take home his rejected produce.

Picture 3: Weighing scale

Source: Kathrin Strohm

The *Centre Controller* weighs the accepted produce (picture 3) and notes the amount down on the **farmer card** containing further important information such as farmer's name, ID number, name of buying centre and section, date of planting, amount of seeds planted, dates of spraying and which chemical was applied and by whom. The sprayer and the farmer sign the farmer card. In case the farmer is not available, a witness such as a neighbour signs instead.

Picture 4: Traceability

Source: Kathrin Strohm

To ensure traceability, every crate is accompanied by a note (picture 4) stating the producer's code and plot number, centre name, picking day and variety.
Finally, the Frigoken trucks pick up the produce at the grading centres daily apart from Sundays.

A base price is fixed throughout the year but there is a possibility to earn a bonus for superior quality produce. At the end of the crop, approximately 2-3 months after planting, the **farmer receives cash for his entire crop,** less the financial value of the pre-financed inputs. In this way, a farmer can get money five times a year. 42-48 days after planting, the picking starts which lasts for around 28 days. On average, a farmer harvests 120kg beans out of 1kg seeds. A team of account supervisors comes in the end of the crop to verify the correctness of the records and to make sure that the records the farmer has match with the ones in the buying centre.
Frigoken field staff in the schemes are responsible for guaranteeing good management practices. In case of natural calamities, they assess any loss incurred by farmers per farmer and plot. The **risk is shared** in such a way that the farmer has put in his/her labour and will get no return while Frigoken surrenders getting a refund for the pre-financed inputs.
There are some farmers who fail to break even but this is mainly because they neglect the crop and do not take proper care such as irrigating daily. In such a case, the farmer needs to bear all the costs and Frigoken cannot help. In other cases, there are disagreements in the family, which cause problems (e.g., the wife cultivates the crop but the husband later on sells it to brokers instead to Frigoken).
In case of severe epidemics or pests, which require emergency spraying or fertilizer, Frigoken covers any additional costs incurred by these measures because before signing of the contract

the farmers were given rough estimates about input costs and likely harvests thus been able to calculate approximate profits.
Agronomists in the field give weekly feedback to their headquarters in Nairobi assessing the performance of the current crop and estimating future harvests.
With respect to **out-selling** a Frigoken supervisor in the Murang'a scheme mentioned that discussions with farmers are most important. Furthermore, Frigoken staff involve local leaders such as chiefs to settle different issues. The field assistants Frigoken contracts are local, so they often know the people they are interacting with and have background information about their particular problems.

Box 1: Irrigation water

After the reforms in the water sector, there are four different categories of using water:

1. **Groups** can apply for a group permit to use water for irrigation, which is the cheapest way (3,600 Ksh flat rate for five years). The money is paid to the local water board. Therefore, the formation of groups is encouraged due to water management reasons.
2. **Individuals** pay 2,400 Ksh per year as a flat rate for domestic use only.
3. **Another type of individuals** who have a water meter pays according to their consumption whether the water is used for domestic use or irrigation.
4. **Community water projects** (for drinking water and irrigation): here the project pays 3,000 Ksh per year to the water board and can decide by itself, which rate to charge the members of the community water project.

a. Murang'a Scheme

The Murang'a scheme started in 1994 and by 2005 had a pool of 16,000-20,000 farmers in five districts covering Nyeri, Kirinyaga, Embu, Murang'a and Thika, who however do not plant all in every season. 80% of these contracted farmers are women, organized into 80 buying centres with approx. 200 farmers each and in total 700 field staff.
Today, the Murang'a scheme is already certified under **EurepGap** covering 70% of all farmers/buying centres involved. At the office in Murang'a, Frigoken has a big store for seeds, pesticides etc. and an archive for all the records of the scheme since its establishment. In this way, the company can easily monitor and assess the performance of specific buying centres and see how to improve it if necessary. Spraying equipment etc. is maintained from here before being returned to the buying centres. Seeds are bought in bulk and repacked in smaller quantities before being supplied to the buying centres and the individual farmers. Crates are stored in the central store in case of shortage in buying centres of the surrounding areas.

Visit of a farmer belonging to the Murang'a scheme

The farmer whose field was visited gave positive feedback about the collaboration with Frigoken. He started growing beans in 2000 and is happy since the payment for the beans enables him to pay school fees for his children. He constructed a well when he started cultivating beans and needs one hour daily in the evening to irrigate his plot of beans where he planted 1 kg of seeds.

b. Scheme in Kisii failed

Frigoken tried to establish a new scheme in Kisii, which however did not lead to the expected success. A Frigoken agronomist in the Nairobi headquarters is of the opinion that the main reason for its failure is the lack of entrepreneurial culture and the lacking attitude of doing farming as a business among the farmers in Kisii. He has the impression that farmers in Kisii were not as accustomed as farmers in the central region around Mt. Kenya to growing crops for the market. This means that the mentality of the farmers involved in the business venture matters a lot. Farmers used to only growing crops for their subsistence must change their attitude in order to succeed in commercial farming.

c. New Scheme in Kitale

A new scheme has been started in Kitale, mainly involving farmers from the Luhya community. The first crop was completed with 1,000 contracted farmers and the second with 2,000. According to the informant, it is doing well, because the farmers in this area have the right attitude and they want to do business.
The recent set-up of this new scheme shows that Frigoken does not fear transporting its produce over long distances (about 600km) to Nairobi but that there are other factors determining success or failure.

3.1.1.2 Contract Groups

In this procurement category entire farmer groups, mostly Self Help Groups, as well as Cooperatives are contracted on a 6 months basis. By 2005, around 10,000 farmers were dealing with Frigoken through this system. The interviewee pointed out: "the easiest way to engage farmers is through groups".

For the contract groups, Frigoken pre-finances seeds and pesticides while the farmers are responsible for fertilizer. The group must agree to follow Frigoken approved growing programmes. Field staff, acting as "auditors", monitor and advise the groups. The field staff do the planning on the ground and communicate these data back to Nairobi HQ.
The produce is picked up 3 times a week at the grading centres of the groups, transported to Nairobi where it is finally graded and thus accepted or partly rejected. Farmers can pick up the rejected produce in Nairobi but rarely do due to transport problems. Logistical reasons and the involvement of too many farmers prohibit Frigoken of rejecting the produce in the field directly or of bringing back the rejects to the respective farmer groups. Frigoken only takes grade 1 and disposes of the rejects.

Selection criteria for a group to be contracted by Frigoken

- Past performance (if group was contracted already before, experience with the crop)
- Good management structure of the group; apart from working with well-established groups, Frigoken also encourages the formation of new groups
- Internal control system, sanctions, by-laws
- Land and water availability
- Logistical issue: grading centre should be next to a good road (→ central province has an advantage due to its good road infrastructure)
- Grading shed and chemical store do not need to exist right from the beginning but should in the long run
- Group needs to "employ" staff:
    - field controller (growing, scouting)
    - centre controller (grading)

→ These employed people who are normally more educated (at least Form 4 leavers and above)[5] are the linking persons to Frigoken staff. They are the ones been trained by Frigoken on EurepGap issues and the like. Frigoken provides free of charge trainings concerning quality standards and how to grade properly.

[5] "Form 4 leaver" in the Kenyan system means an education level of 8 years Primary school plus 4 years Secondary school.

After every 2 weeks, the group committee receives a cheque for the entire group. Then it is up to the group leaders and the clerk how to break down the payment to the individual group members. The price for contracted groups varies and depends on the agreement they come up with during "negotiation". However, Frigoken has a policy to deduct at least 20% to cater for the losses occurring during the processing (trimming of edges) which is not mentioned in their contract used in 2005 but only a verbal arrangement.
By the end of 2005, the contract manager was exploring opportunities in **Kiambu** area, which so far horticultural companies did not touch much.

The groups, working with Frigoken, narrated that sometimes the company does not pick up all the produce as agreed, which might have several reasons:

- The capacity of the factory in Nairobi is exhausted or cannot process the maximum quantity because it experiences a water shortage due to the Nairobi Show.
- The contract does not specify the quantity of weekly produce supply to Frigoken because it is based on the weekly amount of seeds planed. Therefore, under favourable weather conditions groups might produce more beans than on average expected by the company. However, the company might not be able to process this additional produce since it planned with a specific lower quantity.

3.1.1.3 Individual Farmers

There was a time, when Frigoken needed more produce. Due to costs, labour involved and land restriction it was difficult to expand the Murang'a scheme further. Therefore, they started contracting medium scale farmers with 5 to 30 acres of land on a one-year basis. These farmers directly deal with and are supervised by the Frigoken headquarters in Nairobi. The majority of them transports the produce with their own means and pre-finances everything on their own. Therefore, **this is the most economical way for Frigoken of getting its produce!** Actually, this cooperation between a major company and larger scale farmers, who do not need as much support as small-scale farmers, is not covered by the models introduced in Section 2.2. It rather represents a model of its own, which however was not in the focus of this study, which concentrates on small-scale farmers as the target group.

Selection criteria for newly contracted individual farmers are

- land availability and land use history
- infrastructure and a requirement of irrigation
- staff structure in place, kind of "social code" and treatment of workers
- availability of labour
- environmental audit needs to be done (one initially and then later internal audits are sufficient)

3.1.1.4 Meru Greens Horticulture

Frigoken contracts Meru Greens Horticulture as an intermediary, which then further subcontracts small-scale farmers in a scheme structure and thus fits the intermediary model.
For further details, refer to 3.1.2 Meru Greens Horticulture.

Challenges faced by Frigoken Limited
Finally, some challenges shall be mentioned which became apparent in the discussions with various Frigoken employees:

- The local competition within Kenya is very high.
- Input prices are relatively high and therefore Frigoken is constantly looking for cheaper ones.
- Transportation costs are incredibly high so that it is more costly to send a truck from Nairobi to Mombasa than shipping something to Belgium.
- China is a threat for processed products since their labour costs are even lower and raw material supply is cheaper. However, Kenya is well known for its superior quality!

3.1.2 Meru Greens Horticulture

Meru Greens is dealing with two business lines. On the one hand, the French beans outgrower system they are well known for and on the other hand, the fruit farm which will be dealt with in Section 3.2.
Meru Greens Horticulture started 12 years ago with mainly production on their own family farm. In order to help improve the surrounding community, they started working together with outgrowers, who are organized in registered Self Help Groups and established a scheme structure. Over the last years, the business continued to grow: In 2002, they dealt with 1,500, in the end of 2005 with **3,000** and by early 2006 might work with 3,500 **outgrowers**. At the end of 2005, these outgrowers provided 99.5% of the French beans while the rest came from the Muthomi farm.
So far, Meru Greens delivers all its French beans to the Frigoken factory in Nairobi[6] where it represents a large proportion of Frigoken's overall turnover and experiences an average rejection rate of 18-20%. The quality, delivered by Meru Greens is one of Frigoken's best and because of that it is canned for Bonduelle in France.

All of the 28 grading/packing centres is managed by a trained scheme manager. In addition, Meru Greens employs 24 technical assistants (TA) mainly for quality assurance and management. They are supported by an agronomist (B.S.), and his 2 assistants, all based at the headquarters. Furthermore, five employed accountants manage the computerized accounting system in order to pay the farmer in time.

Contracting procedure
Even though the farmers are organized in S.H.G, Meru Greens deals with the individuals because in the past many farmers have been cheated by and lost trust in the cooperatives. Therefore, they deal with the individual person, aiming *to encourage and satisfy them*. Three years ago, Meru Greens started dealing with written down contracts. They got copies from other buyers and made adjustments for their own purposes, but did not involve farmers in drafting it. For the last 3 years, the document has remained the same. **Every farmer signs the contract for 1 year** and needs to have his/her personal bank account. The group structure is used for management issues such as putting pressure on the farmers in order to comply with the *Code of Practice*. Therefore, Meru Greens thinks of signing a contact with the farmer group as a whole as well. Meru Greens started using contracts out of their own initiative, as it wanted to avoid out-selling and give the farmer a feeling of being bound to the company (which provides them with cheap inputs). Furthermore, the document gives Meru Greens power, which however it has not yet exercised (e.g. in taking someone to court). The farmers

[6] But in the past, Meru Greens also delivered to Sunripe for fresh produce. Furthermore, they tried to deliver Njoro Canners but stopped due to different reasons.

appreciate the consistency of Meru Greens' service delivery and therefore do not sell out to brokers.

Meru Greens controls all the **inputs** for farmers use. Initially they only dealt with farmers who were able to finance all their own inputs. In order to expand, however, they had to change the system. Now, they pre-finance 50% of seeds and 100% of chemicals and nutrition supplements. They have to ensure that the crop grows well; otherwise, their input in form of seed will be lost. Before they are repacked by the own staff into ¼ kg bags, the seeds are dripped into a solution. In this way, the plant can grow until flowering without requiring a spraying. The company has a central store from which chemicals are distributed to the field.

New group recruitment
The groups already dealing with Meru Greens were good ambassadors of the company. So, Meru Greens actually was never required to do any recruiting since interested groups keep coming to their office. During the first interaction, the managers can already sense whether this is a credible group or not. Many groups actually have been rejected. Other important factors are accessibility by road and security. Driving through a long strip of forest is for instance not secure. Furthermore, a new scheme needs to supply a minimum volume of 500kg per delivery; otherwise, it is not viable.
After a new group has formulated its interest in working with Meru Greens, the technical assistants convene a meeting during which they explain the contract. After they have signed the contract, the farmers get seed and inputs and can start planting. Grading sheds can be constructed in the process but do not need to exist from the beginning.

3.1.3 Indu-Farm (EPZ) Limited

On 10.11.2005, 26 members and committee officials of a S.H.G. from Mt. Kenya region selling to Indu-Farm travelled to Nairobi to discuss problems that had incurred recently with their buyer. Secion 3.1.3 will mention the issues the farmers discussed with the Indu-Farm production Manager in Nairobi.

Seeds
Indu-Farm gets all its seeds from Regina Seeds in Nairobi, which repacks them in smaller quantities at a fee. Regina Seeds has a kind of monopoly and imports seeds from Holland. They apply US$ - Ksh exchange rate and depending on the current rate, prices fluctuate.
In one example, instead of snow peas, sugar snaps were delivered. This mistake however was not detected until the crop had grown up in the field. In order to avoid such mistakes the farmers should always make sure that the seed number on the package matches the delivery note for the group's seeds. If this is not the case, farmers should not accept the delivery.

Inputs
The group put up its chemical store and is therefore now ready to purchase pesticides and other inputs through Indu-Farm. Since the company can buy these products in bulk in Nairobi, the group can save some money. Due to EurepGap regulations, chemicals need to be transported separately from produce. All contracted groups in one area interested in this input arrangement, can therefore share the logistical costs of transportation.

Planting programme
During the rainy season, farmers often fear planting when they are supposed to because there is a risk that heavy rains will wash the seeds away. Such behaviour, however, is very critical for the company because it has designed its planting programme in order to supply its buyers

abroad regularly. Should the importers get the impression that Indu-Farm is an unreliable partner, they might loose their market altogether. Therefore, it is very important that farmers inform the company immediately whether they have planted or not so that the company can quickly make adjustments.

Quantity

Indu-Farm calculates with units, comprising approx. ¼ of an acre and planted with 2.5kg of seeds. On average, Indu-Farm expects a yield of 500kg per unit.

During their visit the farmers complained that this average yield is too low and that they can manage to harvest 800-1,000kg per unit. However, when they supply Indu-Farm with almost double the amount of produce the company initially expected, Indu-Farm might not have a market for it and therefore be very strict with quality standards. The main factors determining yield are fertilizer and irrigation. In order to handle this issue better, Indu-Farm intends to put up a demonstration plot on a farm of one of the group members to assess the yield, which is feasible to achieve in this particular region.

Supply of packaging material

At one point there was a shortage of crates, which forced the group to deliver part of the produce in bags. This in turn damaged the produce mechanically and they incurred a high rejection rate. Indu-Farm has to make sure that every farmer group is supplied with enough crates, which are also coded for traceability purposes.

Pick-up of produce and time of collection

In the past, sometimes several vehicles came to pick up the produce during one picking day even though the produce was ready and could have been picked up at once by only one truck. After raising this problem, Indu-Farm seems to have changed its transport company and since then the situation has improved.

When the produce is picked up late in the evening, e.g. 11 p.m. it is very insecure for the grader, in most cases a woman, to wait for the truck and supervise the loading procedure.

Rejects, grading and quality

The group would like to have a minimum level of rejects, which is accepted and paid by Indu-Farm. However, Indu-Farm is not willing or in a position to agree to such a regulation.

A grader, employed by the company, was supposed to come in January 2006 to train the group members on grading and post harvest hygiene. The group would prefer that a company grader stays in the field with them permanently so that the majority of the produce is rejected immediately in the field and not in Nairobi. Indu-Farm is of the opinion that this system would put the grader under too much pressure since she might sympathize with the situation of the farmers and thus might be less strict on grading.

Before the fresh produce is packed and prepared for export, it needs to stay in the packhouse for 4 days. After this period, one can see whether diseases have developed and grading can be done accordingly.

Indu-Farm does not return the rejected produce to the farmers but brings part of it to children's homes and another part is taken by farmers as animal feed, mainly for cows.

Price

Within the last 3 years, the farm gate price for the farmers' produce never increased. This is because there is a harsh competition on Europe's retail market and the market price actually dropped while the inputs became slightly more expensive.

Payment mode

The group complained that when they are paid weekly they incur too many bank charges. Therefore, they asked Indu-Farm to pay them every 2 weeks. Because Indu-Farm worked with 95 groups/projects in 2005, it is difficult for them to administer different payment modes. However, Indu-Farm wants to try to organize its accounting system and divide the groups according to their payment preferences (weekly or after 2 weeks).

Contract

Since its operation, Indu-Farm had not yet been working with contracts to formalize its cooperation with groups/projects. In November 2005, the company had designed a draft contract, which they intended to discuss with the farmers, adjust if necessary and finally sign and use.

EurepGap

Concerning, EurepGap Indu-Farm agreed to pre-finance investments such as spraying uniforms and knapsack sprayers for its projects. Furthermore, they are willing to partially meet the certification costs and have started with specific trainings. On the other hand, the groups need to improve its management structures and implement proper by-laws.

Group management and charges

According to Indu-Farm, each project/group should have one grader, one field supervisor and one clerk. These three jobs can also be divided among two people but not less to avoid overworking. The group committee meets regularly while the entire group meets only once every three months.

For every kg a group member sells, the group deducts 1Ksh, which pays the salary of the grader and stationary for record keeping.

Every month the group spends 1,800Ksh on transport in going to the bank to Nyeri, banking charges and salary of the clerk. These 1,800Ksh are paid as follows:

(1,800 / total number of kg in that month for entire group) * number of kg per individual group member. The resulting amount is deducted from the money that respective group member is supposed to receive.

In times of construction, the committee collects a special contribution of e.g. 1,000Ksh per active member.

As described above, Indu-Farm just recently introduced the usage of contracts and so far still relies on an external transporter, which brings the produce from the field to the packhouse in Nairobi. Due to this reason, Indu-Farm cannot be classified as a company representing the centralized model yet but is somewhere in between this and the informal model. Since only the transport services are outsourced but not extension or financial management this cooperation can hardly fall under the multipartite model.

3.1.4 Homegrown Kenya Limited

During the field survey one farmer group in Embu, was interviewed which is selling to Homegrown Kenya Limited.

Homegrown can look back to more than 20 years of experience and was voted East Africa's most respected Agribusiness by its peers in 2004 and 2005[7]. Having a large number of extension staff and a huge fleet of tractors, Homegrown is one of the best representatives of the centralized model. Owing to its experience and financial strength, Homegrown has developed some systems, which seem to be unique to them and shall be described in the following.

[7] http://www.f-h.biz/introduction.asp?bandwidth=big

The group, which was interviewed, has been supplying Homegrown since 2002 with various products such as baby corn, carrots, onions, butternut and courgette but French beans were always in the majority. So far, they **do not have a written contract** but the company is in the process of drafting one. Twice a year a meeting between Homegrown officials and group committee members takes place in Meru town during which a number of issues are discussed such as quality standards, prices, services/training, introduction of further crops. In the next meeting, which might take place early 2006, the contract topic is likely to arise.

Homegrown supplies Regina seeds and one type of chemical on credit to its outgrowers while the other chemicals are bought by the farmers according to a recommended list. A Homegrown field supervisor provides technical assistance concerning production methods and is present during the daily grading. In addition, Homegrown services and calibrates the spraying pumps of every group member once per month free of charge. Since the cooperation started, Homegrown staff has been conducting a one day training on record keeping for every group member twice a year.

Immediately, when the group had started supplying Homegrown, they paid additional 1.5Ksh to the group account for every kg sold of any type of produce. It is up to the group to decide how to spend this money but it is used mainly for grading shed maintenance. The company trucks pick up the produce six days a week at the group's grading shed. The produce which is rejected in Nairobi, is brought back to the farmers and the reasons are stated in writing. In times of oversupply, rejects are higher than normal.

Every farmer plants two varieties of French beans and the farmer group as a whole is paid for its delivered produce every 2 weeks per cheque.

Homegrown covered all the EurepGap certification costs and thus all the 17 members of the group, which was visited, became certified in 2003 and have their own chemical store in their homestead.

3.1.5 Kenya Horticultural Exporters and Drumnet

The cooperation between Kenya Horticultural Exporters Ltd. (KHE), Pride Africa/Drumnet and Self Help Groups is a good example for the multipartite model, which involves at least one more partner than in the centralized model who is in charge of important aspects in the arrangement. In this cooperation, three major contracts or written agreements exist.

First, the **Memorandum of Understanding** regulates the roles and obligations of the three parties involved and is signed by all of them:

The NGO **Pride Africa** through its Drumnet project identifies qualified S.H.G., provides them with training on various issues such as Farming as a Business, EurepGap etc., does the record keeping for the farmer group, facilitates their payment after every two weeks, and provides farm inputs on credit if necessary.

The buyer **KHE** agrees to enter into a purchase agreement with the selected S.H.G. and assists them with farm extension service and advice on how to achieve the required quality standards.

The **S.H.G.** finally agrees to follow the requirements of a Drumnet membership, nominates a suitable person as Transaction Agent to represent the group towards Pride Africa and KHE, and enters into a contract with KHE according to its specific requirements.

The **Horticultural Production Contract** is signed between KHE and the S.H.G. It mentions in detail the services provided by KHE (input supply if requested, extension, transport and

return of rejected produce) and furthermore refers to **Product Specifications,** additional documents accompanying the contract, which regulate the quality requirements.
The S.H.G. agrees to follow the provided **Planting Programme** as well as the technical KHE recommendations, adhere to Good Agricultural Practice, implement the KHE **Grower's Manual** and sell all its produce solely to KHE.
The prices are not written in the contract itself but announced in an additional information letter, issued one month before start of the new planting season.

Drumnet has developed the **Drumnet Manual,** which outlines its roles and obligations as well as those from the contracted S.H.G.
For securing its credit scheme, Drument groups need to establish the so-called Transaction Insurance Fund (TIF). This means, that when a group wants to get a loan from Drumnet, they need to pay 40% of the amount they want to get in advance in case they are not able to pay back the loan. When a group wants their TIF to be offset against their loan, they need to give Drumnet an authorization letter to do so. However, if they resume planting with Drumnet and want to get inputs on loan again, they need to pay a new TIF. The loan Drumnet gives to the farmers is supposed to be paid back within three months and charged with 10% interest for these three months.

Drumnet – Kirinyaga office
Staff in the Kirinyaga office has been reduced to three permanent employees currently looking after twelve active groups, which all plant French beans and baby corn for KHE (picking days: Mo, We, Fr).
Apart from the active ones, there are 31 groups, which are still Drumnet members since they did not claim back their TIF.

According to the Transaction Agent of the interviewed group, the farmers have been involved in the recent contract negotiations. Drumnet workers came and asked the farmers about their price expectations and after that, a KHE agronomist and a Drumnet official came to explain the contract details to the group members and it seems as if an agreement was reached which is acceptable for all parties. One week before the new planting will start the group chairman will sign the contract, lasting for one year.

3.1.6 Highlands Canners Limited

One Cooperative was interviewed about its current selling arrangement with Highlands Canners.
At the end of 2005, Highlands Canners had a specific document regulating the cooperation with its farmer groups but showing a number of deficiencies in order to be a real contract. First, Highlands requires its groups to get EurepGap certified before they will issue them with a real contract. Therefore, by the end of December 2005 the group had established a subcommittee to give Highlands its recommendations for drafting the contract. Highlands Canners supplies its farmers with inputs, investment credits, a company agronomist supervises the produce collection and the transport is organized as well. Despite the shortcomings concerning the contract design, Highlands therefore shows the typical signs of a major company acting in the centralized model. In addition, there are some interesting regulations worth mentioning.

Highlands provided the cooperative with a loan to purchase its own crates and construct/improve its grading shed. Initially, 4Ksh were deducted per Kg of produce sold. In order to pay back faster, the members of the cooperative decided to change it to 6, than to 8 and now again back to 6Ksh. This shows that the communication between the cooperative and Highlands works well and that the company is willing to act flexibly according to the farmers' preferences.

Highlands Canners being a processor has a special procedure when it comes to rejections. Verbally, not written down in the current "contract" it is agreed, that until a rejection rate of 10% Highlands pays the agreed price for the entirely delivered amount of produce. Beyond these 10%, Highlands pays only the accepted produce at the agreed price. Here, an example for illustration:

- The cooperative supplies 1,000kg of good quality at price X. Nothing is being rejected and so they are paid 1,000X.
- Now, the cooperative delivers 1,000kg produce of lower quality and normally Highlands would reject 25%. Therefore, Highland would normally pay 750kg times X, amounting to 750X. However, due to the special agreement Highlands pays the cooperative as follows: Instead of 250kg, they only calculate with 150kg rejects. Therefore, Highlands pays 850kg at X each. This amounts to 850X and when divided by 750 (the amount really accepted) this comes to a price of more than 1,13X. In this way, the special arrangement favours the cooperative and they "end up with a higher price".

3.1.7 Greenlands Agroproducers Limited

For Greenlands Agroproducers the managing director was interviewed but none of the farmers working for them were. Thus, the information presented here might be biased on the company's side.
Greenlands is EurepGap certified (BVQI, UKAS) and exports to European countries as well as Saudi Arabia. The company has major interests in French beans extra fine, sugar snaps and passion fruit.
Greenlands has dealt with smallholders since 2000 but had bad experiences concerning contract growing, because farmers sold out to brokers when prices were high in particular seasons. Apart from a fixed price all year round, the company also tried different pricing structures such as seasonal prices and fixed prices plus a bonus for quality, quantity and reliability. However, it seemed not to have had the desired impact.
Because the company had lost quite a lot of money, it changed its structure and established own farms on leased land of almost 1,000 acres in different areas such as Makuyu, Kibwezi, Machakos, Timau etc. Ultimately, the goal is to reach a ratio of 60/40 between own farming and contract growing in order to spread the risk between small-scale farmers and the company. In addition, Greenlands also contracts individual larger farmers.
After having learned from experience, the company has now stationed employed graders in the field, supervising the selection in order to reject the majority of lower quality produce directly in the field before transporting it to Nairobi. Company trucks handle the transport.
According to this description, when contracting small-scale farmers Greenlands Agroproducers represents the centralized model but also deals with a kind of plantation agriculture which was not explained in Section 2.2 since it is not a type of contract farming per se.
The interviewee mentioned that due to peer pressure often the quality of produce from farmer groups is better than from individuals since the group does not want to loose its reputation just because of a few members not doing a good job. However, according to the informant it is important to reduce the group size (to around 15 members) to avoid that group politics take over and quality suffers.

3.2 Mangoes and other Fruits

Concerning the mango value chain, two farmer groups and one individual farmer were visited. However, none of the interviewees so far had experiences with a contractor. On the other hand, all of them are interested in entering a stable buying agreement in order to be sure of a secure market and thus hopefully better prices. So far, all of them rely on the local market or middlemen and therefore often sell their mangoes at very low prices, such as 2Ksh per piece.

Furthermore, two companies, Meru Greens Horticulture and Kevian Kenya Limited, were interviewed which are expanding their fruits section and are interested in cooperations with farmers to obtain high quality produce.

Meru Green Horticulture

As mentioned in Section 3.1.2 besides French beans, Meru Greens Horticulture has started trading with fruits. On their own 20-acre farm, family Muthomi grows mangoes, papayas, citrus fruits, bananas and grapes. According to the management, prices for high quality fruits are very high and the local demand within Kenya is growing. Therefore, if well managed, 40% or more of fruits revenue can be profit. Meru Greens has started supplying the up market in Nairobi, such as shops in Westlands and the Green Corner shop in Yaya Centre. They are interested in supplying Hotels with their products but did not start yet. Meru Greens labels their fruits, so customers are able to identify them. However, the supermarket chain Nakumatt, which they also supply, does not allow them to label the fruits they sell to them.

In the end of 2005, Meru Greens weekly delivered 4t of fruits to Nairobi. In order to increase this amount and properly handle it, they need to establish a distribution point (go-down) in Nairobi. The HCDA facilities were planned for other usages and are therefore not suitable for the purposes required by Meru Greens (e.g. several smaller compartments instead of very big ones). However, sometimes HCDA storage rooms are used in Meru. Meru Greens has its own transport facilities comprising two trucks and the logistical system is well organized.

Meru Greens has recruited a few small-scale farmers for fruits but dropped 75% of them. Since fruits are perennial crops they are very sensitive, and plant nutrition and soil fertility are very critical issues. Because of these reasons, they require very committed and focused farmers who are not easy to find. Therefore, Meru Greens has changed its perspective and when it comes to fruits rather opts to hire farms and employ a manager who follows Meru Greens instructions.

Kevian Kenya Limited

Kevian, the producer of Pick-and-Peel as well as Afia juices, intends to start the production of fruit concentrate. For this reason, the company needs to be linked to farmers supplying mangoes but also passion and other fruits. This linkage is partly facilitated by Kenya Gatsby Trust but also PSDA.
Once the business venture will be implemented, it will be organized in the way of the multipartite model.

3.3 Passion Fruits

During the field study, two farmer groups were interviewed concerning passion fruits, however only the one near Meru town successfully and regularly sold its produce to a big company, which shall be explained in the following.

Cooperation with East African Growers Limited

East African Growers Ltd. (EAGA) has selected Embu and Meru Districts as the project area for its intervention in the *Fruit quality enhancement project*, which they implemented with the support of Kenya Business Development Services Program (Kenya BDS)[8], funded by USAID. Due to this cooperation, EAGA has been able to produce a very elaborate contract, which clearly specifies the terms and conditions under which the passion fruit producer and the company work together. The contract spends six pages on the company's and the farmer group's responsibilities, ethical trading requirements as well as penalties and bonuses. Also natural calamities and dispute settlement are clearly mentioned. In the signature section both parties are well represented plus HCDA as a witness. The appendix of the contract lists important documents, which accompany it such as a protocol of signatures of all members of the farmer group, quality and grade specifications as well as a recommended list of pesticides.

Employees of Fineline Systems and Management Ltd., a consulting company involved in the EAGA/KBDS *Fruit quality enhancement project*, provide external support in various fields and for instance organized a trip for farmers to see the EAGA facilities in Nairobi.
EAGA provides the farmers with cartons as transport material, which they should pack in a standardised way with 48-50 passion fruits. Every group member packs his/her carton individually and labels it for traceability with his/her member code. The group members transport their passion fruits once per week to a central collection point in Meru town. There, a grader from EAGA is present already before the driver arrives and inspects the produce. The grader notes the weight at farm gate on the so-called *Produce Collection Note,* which is later verified through a final weighing procedure in Nairobi. If fruits are rejected in Nairobi, the farmer can pick these up the following week in Meru. EAGA writes the rejection reasons down on the original delivery carton and furthermore the company writes a letter to the farmer group stating the reasons for the rejection (mostly brown spot).
The one-year contract sets a fixed price for passion fruits, which meet the quality requirements. EAGA pays the farmer groups fortnightly by cheque (but sometimes also in cash) based on the *Produce Collection Note* and issues a payment receipt stating all important information about the transaction.
At the end of 2005, EAGA requested all its contracted passion fruit farmers to start a serious EurepGap implementation process. Therefore, it is necessary to comply with major requirements such as correct record keeping, disposal pits, farm labelling etc. by the end of November 2005. In this context, every month a technical advisor from the EAGA office in Embu checks the facilities of one member per farmer group.
With its cooperation partners such as Kenya BDS and Fineline Systems as described above, East African Growers is successfully working in the multipartite model.

[8] http://www.kenyabds.com/

3.4 Potatoes

For the potato value chain four different farmer groups but no buyers were interviewed:

- **Farmer group in Bomet:** is planning to supply Deepa Industries in Nairobi on contract as soon as they will have produce to sell
- **Farmer group in Silibwet/Bomet:** has supplied Deepa Industries already three times and will resume as soon they will have produce to sell
- **Farmer group in Olokurto/Narok:** has contract experience with Njoro Canners and Steers and as soon as produce is ready want to supply Steers again
- **Two farmer groups in Kibirichia/Meru North:** farmers do not yet have CF experience but are interested in stable marketing relationship as well as local value addition

3.4.1 Farmer group in Bomet

Researchers from the Kenya Agricultural Research Institute KARI in Tigoni, in charge of potatoes, trained this potato farmer group[9] on production methods in order to cope with the bacterial wilt problem. Deepa Industries Limited from Nairobi contacted KARI Tigoni because the company was looking for farmers who are capable of supplying them with high quality potatoes for their crisps processing plants in Nairobi. Thus, KARI tried to link the farmers from Bomet District to Deepa.

On **25th July 2005 a stakeholder meeting** involving several farmer groups, researchers from KARI Tigoni and representatives from Deepa Industries Limited took place in Bomet to discuss the following topics about how the cooperation could be managed:

Prices and mode of payment

Deepa agreed to pay a certain price per 110kg bag at farm gate throughout the year and additional 400Ksh for transport costs per bag delivered to the factory in Nairobi. However, after every three months Deepa wants to provide the opportunity to renegotiate the price and thus adjust it to the current market situation.

Deepa does not want the transporter to handle the farmers' money and therefore a member of the farmer group should join every trip in order to supervise the transport and receive the cheque (handling cash would be too insecure) once the produce has been checked for quality and accepted at the factory in Nairobi.

Quantities

Deepa Industries recently opened a second processing plant and therefore increased its daily (Monday to Friday) requirement of high quality potatoes from 4t to of 10t.

Quality requirements

Deepa requires a specific variety of potatoes called Dutch, which is suitable for crisps processing. Furthermore, the potatoes should not be dirty, diseased, injured or have deep eyes but need to be round and of a specific size (farmers were taught with grading machine), and mature so that the potatoes develop a nice colour when fried.

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[9] The registered S.H.G. had 31 members in December 2005 but is seeking additional members in order to increase the quantity it can supply to Deepa Industries Limited in Nairobi. Three members had participated in the Farming as a Business training in Nakuru, in November 2005.

Transport modalities
Deepa does not want to be in charge of the transport and gives this responsibility to the various farmer groups in the area, which want to supply them. They need to establish a system of when the produce is picked up from the three collection centres and delivered to Nairobi. For this purpose, the groups are supposed to negotiate jointly with a transporter.

Deepa gave the farmer group a grace period of 3-4 months to organize itself. These are some of the arrangements they came up with but which so far have not been implemented:
- The farmer group is supposed to purchase a weighing scale in order to fill the bags correctly.
- The farmer group has to open a bank account.
- On 24th of December 2005, every member was supposed to pay a share of 2,000Ksh to have some investment capital and cash to purchase produce from other farmers in order to increase supply quantity.
- The group needs to rent or put up a store as a central collection point in Kapsimoto.
- Every farmer brings the already well-selected produce to the store where it is received by the **quality controller**. This person also controls the quality of the produce in the field, purchases produce from other farmers and receives 50Ksh as payment per bag delivered to the store. A second person is employed as a **record keeper** in the store and is supposed to join the truck to Nairobi while he is given an allowance of 1,000Ksh per trip.
- For every bag delivered to the store further 75Ksh are deduced which need to meet expenses for the record keeper's salary, shop rent, and stationary.

In the end of 2005, the group did not have any ware potatoes to sell but once the rain starts, they are planning to plant and supply Deepa Industries. Just before the next harvest, they intend to sign a contract with the company.

Since the cooperation between Deepa Industries and the farmers in Bomet is still in its infancy it should be assigned to the informal model. Once, it will be more established and in case KARI researchers still play an important role in terms of extension provision, the cooperation is likely to fall under the multipartite model.

3.4.2 Farmer group in Silibwet/Bomet

In December 2005, the group had 16 active members and three of them had attended a Farming as a Business (FAB) training in Nakuru. The group has a group bank account with the village bank and meets every Wednesday for a meeting. They source the potatoes from individual farmers but also jointly cultivate them on the group field. So far, every season one member offered land (approx. 3.5 acres) in a rotational way while the group contributes inputs, seeds and labour during collective working days. The group plans to increase the collective land to 10 acres and wants to start renting land (3,000Ksh per acre per year) instead of getting it from group members so that nobody is disadvantaged. The group members find it easier and socially better to contribute work and thus raise money for group activities instead of only working for themselves and later contributing money to the group account.
Deepa Inustries also gave this group a grace period of 3-4 months to get organized. However, the group wanted to be sure, whether Deepa Industries is serious with its offer of buying from them and therefore they tested the market.
Between September and December 2005, the group managed to organize **four trips of 40 bags each to Nairobi**. Until then, the group did not rent a shop but the farmers brought their produce to Silibwet for collection. Either the group chairman or secretary joined the transporter on the trip to Nairobi. Deepa paid the group by banker's cheque, which was immedi-

ately cashed in Nairobi, to ease the payment of the individual farmers. The transporter was paid separately 300Ksh per bag delivered. These are the details of the four trips:

1. For the potatoes of the first trip, Deepa paid a lower price per bag than originally agreed because it seems that the transporter had mixed the potatoes on the way with others and therefore the quality had dropped. Apparently, the first trip was not accompanied by a group committee member.
2. Deepa paid a higher price than originally agreed because the market price had risen and thus they adjusted it to the current situation.
3. Deepa paid a higher price than for the second trip because the market price had increased even more.
4. Even though they had intended to supply Deepa, the group decided to sell the potatoes in the market in Nairobi since due to shortage, the price had hiked extremely and the one offered by Deepa at that time was lower.

In December 2005, this group also did not have any produce to sell and buying from neighbours who still might have some was too expensive and thus not profitable. However, some crops in their fields were flowering at the time of the field visit and so they will start harvesting after Christmas. Since they were happy with the arrangement with Deepa, they want to supply them again in 2006.

Group management

In order to source potatoes from neighbouring farmers the group has employed six people. They are responsible for quality assurance, are going round during the harvest, control the packing and loading procedure and are paid 100Ksh per bag. The group normally buys the produce from the group members and other farmers, pays them in cash and thus makes a profit of around 200Ksh per bag, which is used for salaries etc.

The group secretary (who did not attend the FAB training) keeps the records.

The group thinks that it is not difficult to meet Deepa's quality requirements.

Future plans

- The group wants to put up a store for ware and seed potatoes and therefore wrote a proposal, which they handed over to a microfinance institution in Silibwet.
- They also wrote a second proposal in order to purchase knapsack sprayers and seeds as well as clean tools/equipment.
- For the four trips to Nairobi, the group did not always use the same transporter. Sometimes a local transporter might not be available and therefore the group dreams of getting their own vehicle (maybe on loan from Deepa) in order to ease logistics. However, the management of such a truck might cause problems and its profitability might be questionable.

As the cooperation between the farmer group mentioned in Section 3.4.1 and Deepa Industries, also this arrangement is still in its infancy and should be assigned to the informal model. Once it will be more established and if KARI researchers still play an important role in terms of extension provision, the cooperation is likely to fall under the multipartite model.

3.4.3 Farmer group in Olokurto/Narok

The S.H.G. interviewed in Olokurto Division[10] started in 2002 with 197 members. In 2005, the group had 97 members and a subgroup had formed in order to have a manageable size. The group committee is in charge of marketing and KARI Tigoni trained the group on production and positive selection. Steers, one of Kenya's biggest fast food restaurants, approached KARI looking for farmer groups to supply them with high quality produce and so KARI in cooperation with the MoA staff on the ground linked the farmers to the buyers.

This particular group in Olokurto has contract farming experience with Njoro Canners and Steers.

Arrangement and experiences with Njoro Canners

The supply on contract to Njoro Canners started in 2002 with potatoes, leek and cabbage. From 2003 until June 2004 however, the group only supplied potatoes. Before the supply to Njoro Canners, potato production was only on a smaller scale for home consumption. From 2003 on, leek production stopped completely since there is no alternative market while cabbage production fell dramatically and these days is only cultivated for the local demand.

Njoro Canners provided the transport and initially a loan without interest for the purchase of Tigoni seed potatoes as well as regular technical assistance/supervision for crop production. The contract used to be renewable after one year. These characteristics classify Njoro Canners as a company of the centralized model.

The contract was actually still valid and running when the farmers decided to divert and supply Steers instead. Some farmers still had a loan pending and therefore a technical assistant from Njoro Canners came trying to recover the money. Since Njoro Canners also delayed in picking up the produce (maybe since the factory did not have capacity to process the produce or part of the equipment had broken down), the farmers are of the opinion that it was o.k. to breach the contract on their side as well. A number of reasons contributed to the termination of the contract and discussions between the farmers and company employees did not reach a solution to the problems.

Until present, the farmers who still have a loan with Njoro Canners fear to resume supplying them since Njoro Canners first might recover its loan before paying the farmers. Therefore, only some individual farmers, who cleared their loan, occasionally call Njoro Canners if they have produce and thus supply them on a casual rather informal arrangement.

Arrangement and experiences with Steers

KARI Tigoni initially introduced the group to Steers and together with colleagues from the Ministry of Agriculture participated in the negotiations in Nairobi. A contract between Steers and the farmers exists and should be reviewed after one year. The group supplied Steers between June 2004 and June 2005 and in particular between March and June 2005, they supplied them twice a week with 4 tons on each trip. After June 2005, the group's produce was over because the crop had failed due to too much rain.

Steers taught farmers on grading and showed them which potato size they require. The group does not require a central collection point because individual farmers can supply large quantities and even fill one truck alone. Steers sends a truck from Nairobi (because in Olokurto are none available), which picks up the produce and goes with one committee member and/or the

[10] Background information on the Division: 1,218km^2, 380 km^2 under forest; Farm size varies between 5 and 800 acres, on average 60; on average 6-7 acres per household under potatoes; average productivity: 70 bags at 110 kg per acre; Main crops: barley, wheat, maize and potatoes (~2.400ha of potatoes, grown all year round)

farmer himself to Nairobi to the central unit. Furthermore, a technical assistant who ensures quality accompanies the driver. The transport costs are deducted from the sales. The agreement is that when potatoes are rejected, for instance due to being undersized, they will be returned to the farmers on the next trip. Thus, the farmers are only paid for the quantity of produce accepted. The farmer/committee member receives a cheque in Nairobi which is cashed into the group bank account in Nakuru after which the management committee takes the money and pays the farmers in cash. 5% of the sales go to the management committee as compensation for their marketing efforts.

The classification of Steers into one of the theoretic CF models introduced in Section 2.2 cannot be done definitively. Since Steers uses a contract in its cooperation with farmers, the purchase from the Olokurto farmers was rather regular, in most cases transports the produce with its own trucks, provides some kind of extension support and handles the finances by itself, it can more or less be attributed to the centralized model. However, this cooperation is not as tight as between Frigoken and its horticultural outgrowers in the scheme structure. Therefore, some people might attribute Steers rather into the informal model.

Problems incurred

There was a time when farmers had lots of produce and Steers needed large quantities. Since Steers only has small 4t trucks, Steers hired a larger one (12.5 t) from Nakuru. It seems that the owner of this truck was in a hurry because he even came with his own people to harvest the potatoes. Since these people were not trained on grading they took many undersized potatoes which were finally rejected and never returned to the farmers (in total 13 tons were lost in this way!). This problem occurred 3 times and the farmers finally stopped supplying Steers.

Reason for Steers to contract farmers in Olokurto region

Olokurto is 70km away from Narok town and thus very interior. Since the region is only sparsely populated and the road network is very poor (which can cause serious problems during the rainy season), there are usually no middlemen passing by to whom the farmers could sell their produce. Furthermore, there are only few trucks available, which the farmers could use to transport their produce elsewhere. Because of the non-existent competition, Steers can be sure that it will get the produce once they have contracted the farmers.

Way forward

In December 2005, Steers called the group committee to organize a meeting in Nairobi for renegotiation of a new contract because they would like to get produce from them again. The main issues of the discussions will be the price and transport arrangement in order to avoid the problems as described above.

3.4.4 Two farmer groups in Kibirichia/Meru North

The first S.H.G. started in 2001 to tackle the problem of bacterial wilt collectively. The second group was founded in 2002 as a “control group” for the first one in clean seed production. So far, both farmer groups do not have any experiences with selling potatoes under a contract but are interested in it. Until now, they have been relying on middlemen who often frustrate them because the prices they offer are very low. The farmers have been cultivating the variety Asante but would also be willing and able to produce another potato variety if a certain buyer demanded a particular one.

Furthermore, they could also produce garlic and onions if assured of a market.

3.5 Poultry

Concerning the poultry value chain three interviews were conducted in December 2005 with the following farmers and companies respectively.

- **Poultry farmer in Embu**: small-medium scale farmer, selling chicken to Hotels in Embu on verbal agreements
- **Kim's Poultry Care Centre in Nakuru**: works with 250-300 small, medium and larger scale poultry farmers (mainly on verbal agreements), slaughters the chickens and sells the meat fresh and frozen to supermarkets in Nairobi
- **Poultry farmer in Machakos:** used to produce chickens for Kenchic on a larger scale in the 1990s but stopped since profit was too little

3.5.1 Poultry farmer in Embu

The farmer is a retired secondary school teacher and started keeping chickens for commercial purposes in 2003 after he had failed in keeping layers. At the time of the visit (07.12.2005), he kept 480 chickens in four different age groups (2, 4, 6 and 8 weeks). He buys the 1-day old chicks from the Kenchic Agent in Embu. Kenchic slaughters all the chickens for its restaurants in Tigoni, which is too far away from Embu. Therefore, the farmer in Embu cannot supply Kenchic with his fowls. Furthermore, he purchases Kenchic ready chicken fodder plus sorghum from farm stores and cultivates soybeans and sunflower as supplements in addition on his own farmland. During working peaks such as slaughtering, the farmer hires casual labour to assist him. Furthermore, he has two people permanently employed and owns a small transporter which he uses do the shopping for his farm and marketing of the chicken in the surrounding area.

In the course of his poultry farming, this farmer developed three different marketing channels:

Hotels

He has a stable relationship with two Hotels in Embu, where he sells 80% of his birds. The initial idea was to supply both hotels every two weeks in alternation.

Hotel 1 buys the whole chicken, slaughtered in a plastic bag at a flat rate of approx. 250Ksh per chicken weighing 1.3-1.4kg and pays immediately at delivery per cheque.

Hotel 2 buys chicken, slaughtered and portioned in a plastic bag per kg. The farmer receives a delivery note and is paid once per month by cheque.

The farmer informs the Hotels 6 weeks in advance when he starts raring the chickens. He has the contacts of the Hotels and vice versa and keeps on reminding them when the chickens will be ready. Because of their varying demand, Hotels do not want to commit themselves in a written contract.

He occasionally sells to other Hotels but no stable relationship has developed yet.

Local market

The farmer brings 10% of his chickens alive to the local market in Siakago.

Farm gate

He sells 10% of his chickens alive at the farm gate. People are aware of his production, buy for own consumption and also breeding at a price of 250Ksh per bird.

3.5.2 Kim's Poultry Care Centre in Nakuru

The poultry company started in 1996 and since then grew steadily. The farmers who produce for Kim's Poultry Care Centre are all located within a radius of 60km around Nakuru town to ease logistics. Kim sells all the chicken to supermarkets in Nairobi and has three different categories of farmers it works with:

1. Small-scale farmers (~100-150)

These farmers keep on average 200 to 500 chickens. According to the interviewee, small-scale farmers are the target group of the company since it wants to elevate their economic status. The company is still expanding and therefore recruiting new farmers. Most of the time already existing farmers introduce new farmers to the company and need to give a kind of verbal guarantee to the company that these are dedicated farmers and able to do business.
With his own capital, the farmer has to put up the stall, purchase drinkers and feeders, heating equipment and provide a stable and clean source of water.
When everything is ready, the company brings the 1-day old chicks and the fodder for 47 days. In Nakuru, the company produces its own fodder, which has a shelf life of 3.5 months. In case they slaughter the chickens earlier than 47 days, the farmer uses the fodder for the next lot. The farmer purchases the chicks in cash while the company pre-finances (at zero interest rate) the fodder and medicine/vaccination and covers logistical costs.
A mortality rate of 2.5-5% is normal and since the farmer eats some of his chickens, he finally only sells around 195 out of 200 to Kim.
Depending on market requirements, the company slaughters the chickens at different ages (after 5, 6.5 or 7 weeks). Three times a week 3,000 chickens are slaughtered and in case not all the meat is sold immediately, the company bears the costs of freezing them for some time. Kim pays the farmer a fixed price per kg of slaughtered chicken.

Once small-scale farmers start rearing 200 chickens with profit, almost 100% of them steadily increase their production up to 500 fowls and thus can increase their profit.
Around three weeks after the chickens have been slaughtered, the farmers are paid either by cheque or in cash in the office in Nakuru. Then, they also do arrangements to raise the next lot of chickens.

Technical assistance

Only two field officers are responsible for 250-300 farmers in a radius of 60km. Therefore, the field workers normally only visit the farmers when informed about a problem. They are in charge of information dissemination, holding workshops especially for new farmers and work closely together with the Ministry of Livestock.
Furthermore, the drivers who distribute the 1-day old chicks and pick up the grown up fowls have some knowledge and can assess whether there is a problem in the stall e.g. with hygiene or diseases.
According to the interviewee, the farmers working with them do not experience many problems with diseases if they follow Kim guidelines. In case a farmer ignored to vaccinate his chickens, he might lose 30% of his animals. Since it was the farmer's negligence, he then has to bear the entire loss and thus will learn a lesson.

Working with a contract?

Normally the company does not issue a contract to this category of farmers. However, if farmers request a written document, which they for instance can use as collateral in a bank to obtain a loan, the company gives them the required documents. There are no costs involved in issuing contracts but the company just does not see the necessity to give them out automatically. They say that working with trust is more important than having a contract. The company achieves this in not letting the farmers down; the farmers and the company rely on each other, farmers have confidence in the company and the company tries to *create a family bond.*

In case farmers out-sell the chickens to others, they first of all harm themselves. The company requests the farmer who gave the guarantee for the problematic one to talk to him and persuade him to start cooperating with Kim's Poultry Care Centre again and pay back the loan. Only an estimated 5% of the farmers are problematic. According to their company information, which was not verified, this might also be because Kim offered the highest market price, at least at the end of 2005.

The prices are set for a period of six months. Before farmers engage with Kim, they get a rough estimate about expected costs, revenues and thus profit. Before the farmers purchase the chicks, the company informs them about the current prices and market situation.

Kim also encourages farmers to form informal groups, which ease company logistics.

2. Medium-scale farmers (~50)

These farmers rear 500 to 1,000 chickens. Since they are more independent than the small-scale farmers, Kim only pre-finances around 30% of the inputs.

3. Larger scale farmers (~50)

These farmers keep more than 1,000 chickens. This scale of operation is the most profitable one, both for the farmer and the company. Starting with 2,000 chickens, Kim issues a contract. They are well to do farmers but since the upfront investment is quite big, Kim gives a loan of up to 50%.

Based on all this information, it can be said that Kim's Poultry Care Centre acts as a central company in its cooperation with all three categories of farmers. Even though the arrangement might rarely be formalized in a contract document, it seems to be a well-established system with a number of services involved.

3.5.3 Poultry farmer in Machakos

From 1992-1997 the interviewed farmer was contracted by Kenchic through an open contract which did not specify the duration. His stalls could accommodate up to 10,000 chickens at a time.

The arrangement was as follows

- Kenchic brings the 1-day old chicks plus fodder and medicine to his stalls and provides information through a feeding programme.
- The farmer is responsible for stalls, equipment, warmth in the beginning of growth, good water (from springs is available which has even been tested by KEBS) and labour.
- Kenchic comes after 42 days with its own truck to pick up the ready chickens all at once for slaughtering in Tigoni.
- The chickens, which die on the way, are a loss only to the farmer.
- Kenchic pays for 'total good weight' of the slaughtered chickens, which means that they also select and e.g. do not take any fowls, which are deformed.
- On average, the farmer incurs a loss due to mortality and selection of 5-10%.
- Kenchic pays for one lot after deducting all the inputs provided.

- Before the farmer started working with Kenchic he had to pay a deposit of 200,000Ksh, which dealt as insurance in case he was not able to pay for the inputs he had received. After the termination of the cooperation with Kenchic he got back his deposit (without any interest).

Disagreement with Kenchic
In 1996 when he was thinking of enlarging his poultry business, he properly checked his records and discovered that he actually did not make much profit (maybe 2,000Ksh in one round).
He confronted Kenchic with his findings and had a number of points of critique but was told that he is the one who must be doing something wrong.
So, he asked Kenchic to come into his stalls with their own workers while he provided water and all the equipment for free and his workers were allowed to learn from the Kenchic employees. When the first and second round of chickens failed (due to mismanagement e.g. stealing from workers, outselling etc.) they finally left. In the end, he had not gained any knowledge from that experiment and finally quit his cooperation with Kenchic completely.

Kenchic as a leading company of Kenya's poultry sector works in a centralized way offering a range of services such as chicks supply, pick up of ready chickens and depending on the agreement also extension and credit facilities (Mireri 2002).

3.6 Summary of Field Findings

Table 1 should deal as a summary of Chapter 3 providing an overview of the CF models encountered in the field study. In the following, a few remarks will be given concerning parallels and differences in the CF arrangements studied. Furthermore, the evolution of the different models will be explained.

Table 1: Overview: Empirical Sample according to Contract Farming Models

Type of Service provided → / ↓ Type of Farmers	Extension	Finances and Management	Transportation	Case Study Example
	Centralized Model			
Small	Field supervisors from final buyer	Scheme managed by buyer	Final buyer	e.g. Frigoken (~20,000 farmers)
Small	Field supervisors from final buyer	S.H.G.	Final buyer	e.g. Frigoken (~10,000), Homegrown (~600), Greenlands and Njoro Canners
Small	Field supervisors from final buyer	Cooperative with support of MoA staff	Final buyer	e.g. Highlands Canners
Small + medium	Field supervisors from final buyer	Deals directly with final buyer	Final buyer	e.g. Kim's Poultry Care Centre (~250)
Larger	Field supervisors from final buyer	Deals directly with final buyer	Final buyer or farmer himself	e.g. Frigoken
	Multipartite Model			
Small	Consultant (Fineline)	S.H.G.	Final buyer	e.g. East African Growers
Small	Field supervisors from final buyer + NGO (Drumnet)	NGO + S.H.G.	Final buyer	e.g. Kenya Horticultural Exporters
Small[11]	Through intermediary (KGT) and HCDA	Kenya Gatsby Trust + S.H.G.	External transporter	e.g. Kevian
	Intermediary Model			
Small	Intermediary	Scheme managed by intermediary + S.H.G.	Intermediary	e.g. Meru Greens for Frigoken (~3,000)
	Informal Model			
Small	Field supervisors from final buyer	S.H.G.	External transporter	e.g. Indu-Farm (~95 groups)
Small to larger	None or through KARI	S.H.G.	Final buyer or external transporter	e.g. Steers and Deepa Industries

The centralized companies encountered during the field study such as Frigoken, Homegrown, Greenlands and Njoro Canners all produce high value vegetables for the export market either fresh or canned. They have several years of experience in the market and their support of

[11] This case has not yet started but is in planning stage.

small-scale farmers in terms of input supply, credit, extension and transport services are rather similar.

While Frigoken is dedicated to working with small-scale farmers in a scheme, Homegrown and Greenlands produce the majority of their produce on their own larger-scale, plantation-like farms. This might be due to their different business concepts and objectives. As a member of the Industrial Promotion Services (IPS) group of companies under the Aga Khan Fund for Economic Development (AKFED), Frigoken seems to demonstrate a different social mandate with another focus compared to its competitors.

Homegrown, on the one hand, seems to have a very good cooperation with its outgrowers and supports them through the grading shed maintenance fund in acquiring EurepGap certification as well as in various corporate social responsibility measures. On the other hand, they had not yet issued contracts to outgrowing farmers when the study was conducted. This means that they probably value a good working relationship more than having written and formalized documents.

The evolution from being an intermediary to becoming a central company can be illustrated with Meru Greens and its future ambitions. During the last years while working for Frigoken, Meru Greens gained a lot of experience and steadily increased the number of small-scale farmers they are working with. Today, they work with more than 3,000 farmers and have developed into a mature business service provider and marketing agent.

Until 2005, the NGO Drumnet had more responsibilities in its cooperation with small-scale farmers and Kenya Horticultural Exporters than under the new contract for 2006. Drumnet used to be in charge of transportation and was solely responsible for extension services. The change in the working structure reveals tendencies that KHE will more and more bypass Drumnet and thus become the only important player in the centralized model apart from farmers.

Kevian ltd is rather new in the field of juice concentrate processing and decided to look for partners to start this business and distribute the different tasks on different shoulders – in an intermediary model. GTZ and other development partners have different instruments to participate in such intermediary arrangements; namely Public-Private Partnership agreements.

The cases of Indu-Farm, Steers and Deepa Industries show that there is some dynamism in the system and illustrate the fluent transition from model into another.

4 Analysis: Factors Influencing Success or Failure of Contract Farming

Chapter 4 analyses the empirical findings of Chapter 3, summarises advantages and problems of contract farming for producers and buyers, and gives an insight into different factors favouring CF arrangements such as the type of the product, infrastructure, socio-economic factors, and others among them transport and contract design.

Advantages of Contract Farming

During the field study, **producers** mentioned the following major advantages of contract farming, which are also partly supported by literature:

1. **A contract ensures a market!** Therefore, the produce does not rot in the field or homestead, which is otherwise often the case for mangoes or chickens do not grow too old until the business becomes uneconomical. Furthermore, this security can increase motivation to work harder and give an incentive for investments (e.g. in better crop husbandry, increased productivity etc.).
2. Most of the farmers who were interviewed hope that a contractor offers them **higher prices** than they can otherwise obtain in the open market or through brokers. In fact, contracts often fix a price for a relatively long period, which means that in times of oversupply the guaranteed contract price might be higher than the one in the open market.
3. Well-organized companies **pre-finance inputs** which small-scale farmers otherwise often could not afford. These inputs and the **extension service** actually represent new technologies and skills, which enable farmers to increase their yield and meet the quality standards required by the commodity market.
4. The **transport** offered by many companies enables farmers in remote areas to access markets, which they otherwise would not have reached (e.g. farmers in Olokurto/Narok).
5. A **regular payment** e.g. twice a month is a stable income a farm household can plan with and use for important family investments (e.g. school fees).
6. Contracting companies use the standardized 110kg bag for potatoes unlike some brokers who still use the extended bag, and which puts farmers at disadvantage.

B**uyers** listed the following advantages of contract farming:

1. Most of the bigger companies have supply obligations with supermarkets, restaurants etc. in Kenya or buyers abroad. Therefore, they have to assure the **quantity** they need to supply their customers regularly and to use their processing/packaging facilities to their full capacity. Contract farming is one way to make the production more reliable and predictable and thus, reduces the procurement risk, which they otherwise would face in the open market.
2. In times of stricter **food standards** such as EurepGap and **traceability** requirements, buyers have to procure their produce from known sources ensuring quality compliance.
3. In order to ensure the quality they require, companies often have to **provide inputs** on credit and **technical assistance**. Therefore, they have to bind the farmers via contracts to sell the produce only to them so that they do not loose their upfront investments.

4. Through good management, a company can gain in efficiency and thus **reduce its transaction costs**.
5. Contract farming and thus the involvement of a huge number of outgrowers enables companies to overcome limited availability of arable land.

Problems in Contract Farming

Producers who were interviewed had the following concerns in respect to contract farming:

1. In times of product scarcity **prices offered in the open market are often higher** than guaranteed by the contract thus tempting farmers to outsell and breach the agreement.
2. **Inefficient management** and marketing problems might lead to the fact that the company does not purchase all the contracted produce.
3. **Field staff** of contracting companies might be **corrupt** and therefore favour specific farmers or groups when it comes to purchasing the product.
4. Companies often force farmers to buy inputs from them to ensure the quality they need. However, the companies sometimes increase the price they charge the farmers for the **inputs** to cover for defaults and then farmers need to pay more than with their local input stockist.
5. Companies, which are operating in a niche, might exploit their monopoly situation.

Buyers who have contract farming experience are mainly faced with the following problems:

1. Often farmers do not value a contract adequately but **sell their produce out** to brokers who offer them a better price.
2. Most small-scale farmers in Kenya are organized in Self Help Groups, which do not have the status of a legal entity and therefore cannot be sued in court.
3. In some regions in Kenya, **farmers seem to lack the right attitude** to growing crops commercially for the market. Since they do not have enough commitment, the crop performs poorly and thus they incur losses.
4. Farmers sometimes do not understand the necessity to stick to the planting programme of the company and for instance do not plant in time. This brings the company into trouble in fulfilling the obligations with their customers.

4.1 Type of Product and Role of Standards

The hypothesis made in the beginning was that contract farming is more common with export horticultural crops because export fruits and vegetables are **highly perishable** and therefore require a closely linked value chain. In addition, internationally goods require more control and vertical coordination, which CF can provide. Good organisation of the production, handling, transport and processing/packaging reduces or avoids losses at various stages in the value chain. Since companies have often introduced these non-traditional crops just recently, they are more difficult to get in the open market (Simmons et al., 2005). Stringfellow (1996) mentions that the *relatively high value per unit volume or weight of horticultural crops makes collection systems over a decentralised area cost effective* in comparison to estate production. Furthermore, tight quality standards such as EurepGap can only be followed when everyone

in the chain is known and follows the regulations. Therefore, standards and the obligation to comply with them are a motor for contract farming and induce its diffusion.
This study supports this assumption because out of the five value chains investigated the best vertically integrated farm-agribusiness linkages existed in the horticultural sector, which focuses on exports to Europe and the Middle East. In the horticultural sector, many companies belong to the centralized contract farming model, which means that they provide a range of services and thus ensure a good cooperation. In addition, production processes, which are highly labour intensive such as French beans, favour outgrower systems over nucleus estates with a large labour force requiring high costs of supervision (Stringfellow, 1996).
However, the examples of Steers and Deepa Industries illustrate that contract farming for potatoes is becoming more popular even though potatoes are not highly perishable. The major reason for the buyers to purchase directly from producers is the high **quality standard** and the **specific variety** they require for processing potatoes into crisps or chips.
Furthermore, it can be argued that if a product is widely available in uniform quality and no specific standards are required, the buyer does not have any incentive to engage in a contract. This might be true for common products for the domestic market, such as carrots, cabbage, tomatoes and local chicken.

4.2 Farmer's Location and Infrastructure

The initial hypothesis was that good roads, infrastructure in general and the proximity to the final market outlet are prerequisites for successful contract farming. The study however could show that this is only partly true.
For the last years, most of the horticultural companies in Kenya have been operating in the high production areas around Mt. Kenya resulting in high competition and land scarcity. Therefore, some of them have started to access other areas of the country. Frigoken for instance started to put up a new scheme in Kitale, close to the Ugandan border, which is 600 km away from its processing plant in Nairobi. This shows that companies often have other reasons than distance to get involved in a particular area. The need to expand production and the search for an area with less competition in this case overcame the high transportation costs.
Indu-Farm sometimes contracts farmers who are not located at a tarmac road and therefore included a sentence into its draft contract that reduces its risks in times of inaccessibility: "*When due to rain the road to the collection centre is unapproachable it is the farm/project's responsibility to bring the produce to an alternative sigh*t".

An interesting encounter during the field study was that poor infrastructure could actually be an incentive for a company to do business in a certain area. This is the case for Olokurto which is 70°km away from Narok town and thus very interior. Since the region is not densely populated and the road network is very poor, there are usually no middlemen passing by to whom the farmers could sell their produce. Furthermore, there are only few trucks available, which the farmers could use to transport their produce elsewhere. Because of the **non-existent competition**, Steers can therefore be sure that once it contracted the farmers it will get the produce.

4.3 Socio-economic Factors

Literature mentions that **traditional practices and attitudes** of some communities in developing countries might pose social and cultural constraints to farming commercially (Eaton and Shepherd, 2001). According to a Frigoken employee, his company encountered such difficulties in the establishment of a new scheme in Kisii. Farmers in Kisii were not as accustomed to growing crops for the market as the farmers in the central region around Mt. Kenya. Therefore, the lacking entrepreneurial culture and the missing attitude of doing farming as a business in this community were finally the main reasons to close the scheme and explore a new area. This means that the mentality of farmers involved in a venture matters a lot. If farmers have been used to only growing crops for their subsistence than they need to change their attitude towards business orientation in order to succeed. The newly established scheme in Kitale is likely to succeed because the farmers there belong to the Luhya community who so far cooperated with Frigoken seem to show the necessary commitment towards commercial farming.

Group cohesion and leadership are clearly a key factor for successful CF. It seems to matter a lot whether groups are newly established or already formed before entering contractual arrangements. However, contrary to our initial hypothesis, companies and farmers are even willing to form new groups for CF – though it remained not clear whether this is particularly prawn to success. During the establishment of a new group, one company told the members whom to choose as leader since they were of the opinion that "*a bit of dictatorship in the beginning might not harm*". Later on, this company seems to have faced more problems with group dynamics and outselling than some of its competitors interviewed which raises the question whether its interference into group dynamics was among the causes for that.

In some interviews, it was sensed that if **Kenyan farmers** are not always willing to enter contractual arrangements with **Indian or Asians Kenyans.** Prevailing prejudices and animosities between the different cultures result in mistrust and seem to severely prohibit contractual arrangements.

A competitive environment highly increases the risk of leakage since it gives rise to the free-rider problem. Companies or middlemen, that did not invest in the crop through the provision of inputs and extension service and thus have lower overheads, can offer higher market prices and consequently attract farmers who are contracted by other companies[12].

If companies want to continue with contract farming despite a competitive market, it is crucial to **improve the legal provisions** and to make contracts enforceable. Formal laws, as well as arrangements based on customary lay might act as effective deterrent to the diversion of sales.

Some companies display a certain **ethic** and therefore choose to work mainly with small-scale farmers in order to uplift their economic status. Even if the cooperation with small-scale farmers might be less economical and more problematic than working with larger scale farmers, such a moral understanding might encourage companies to continue despite the challenges faced. Frigoken, which is a member of the Aga Khan Fund for Economic Development, Kim's Poultry Care Centre and Meru Greens Horticulture mentioned such a special attitude.

[12] Stringfellow (1996) mentions that Kenya Horticultural Exporters and other companies in Kenya as well as in other developing countries found contract farming not sustainable in a competitive trading environment and therefore diverted to other institutional arrangements. Most horticultural companies surveyed for this report mentioned the above free rider problem and this is one of the reasons why Greenlands Agroproducers started to rent farms and change its procurement structure to 60% own farming and 40% through outgrowers.

Reviewing the hypotheses that were drawn in the beginning of the field study (see 1.3) Table 2 illustrates whether we verified or falsified our ex-ante assumptions.

Table 2: Overview: Hypotheses and Research Findings

No	Hypothesis for CF in Kenya	Research Finding
1	Mainly practiced in high potential production areas.	Not exclusively. Since high potential areas are over-cultivated, new areas are explored.
2	Prevalent in export horticulture.	Yes, but CF gains importance in other value chains and for the local market.
3	Proximity to good roads and market outlet is very important.	Important but with exceptions: land scarcity and local monopolies do favour cut-off regions.
4	Groups need to be well established.	Is preferable but not a prerequisite. Farmers' attitude and their determination to work matter more.
5	Education of farmers is a factor for successful CF.	Yes, but if committee members are well educated this might be sufficient.
6	Farmers' involvement in organisations is important.	Yes, networks and the knowledge of resource persons such as MoA officers are very important.

4.4 Other Factors that matter

During the field study, a number of other factors were mentioned to influence success and failure of CF. These factors are discussed in the following.

4.4.1 Trust and Communication

Two interviewed companies noted that **trust in business relationships** is mainly built through consistent service delivery. Only if the company sticks to its word and e.g. picks up the produce at the agreed time and the quantity as agreed, the farmer can be sure that this is a reliable partner and gains confidence in the company. Then, also the farmer will hopefully honour the contract because he understands that both parties rely on each other. In addition, Kim's Poultry Care Centre mentioned that it is more important to work with trust than with a contract. In order to achieve this, they try to create a "family bond" but it remained unclear how exactly they would do it.

In order to avoid **extra-contractual marketing** by farmers most of the interviewees stressed the importance of regular and clear communication. Representation on the ground of company supervisors who frequently can discuss this issue with producers is crucial in this context. Some companies such as Frigoken employ people from the area as field officers and their knowledge of people in the area is helpful in dispute settlement. Furthermore, local leaders such as chiefs can also take on the role of arbitrators. To engage well-known farmers, who have experience with the company, in the recruitment of new ones has proven to be a wise strategy for some companies. Furthermore, the "older" farmers can give a guarantee that the "new" farmers have the ability to farm for the company and might be involved in dispute settlement between the two parties.

4.4.2 Service Provision, Education and Exposure

The provision of inputs such as quality seeds, fertilizer and pesticides through a credit arrangement is often the only possibility for small-scale farmers to obtain such inputs, and accelerates the transfer of these latest technologies into rural areas. When farmers decide to market their produce outside the contract, companies are often at risk of losing their upfront investments in terms of input supply since the farmers are unlikely to pay them back the credit when they sell their produce to another company.
Extension services including the right application of the provided inputs, irrigation and water management, produce handling and grading, as well as trainings in record keeping are important factors of success in CF arrangements and help the farmers to meet the yield expectations of the company and its required qualities (Eaton and Shepherd 2001). Such services might also demonstrate to the small-scale farmers the company's commitment in its cooperation with them and help to create the family bond, which Kim's Poultry Care Centre mentioned.

Contrary to the initial hypothesis, some companies are willing to work with newly established groups and invest in their capacity building when they have the feeling that the effort is worthwhile. **Well-educated committee members** (e.g. secondary school graduates) are often a key factor for the success of a farmer group since they capture company requirements easier and are able to keep proper records and handle the group finances. In case of problems, they are more likely to take the initiative and try to approach the company to discuss the relevant issues as was the case with the S.H.G. that travelled to Nairobi to talk to Indu-Farm and see their facilities.

Farmers often mentioned that they wished more of the produce would be directly rejected in the field and not far away in Nairobi, which makes it more difficult to return the rejects. Therefore, many groups prefer a **company grader** being present during the grading in the field and pick-up of the produce. Thus, the groups might improve on their grading standards and could use the rejects for their own consumption or sell them as second grade.

Farmers often believe that buyers must make a lot of profit and are unable to imagine the problems they are facing in another segment of the value chain. Therefore, a **visit to the processing plant or packhouse** of their respective buyer can serve as a revelation to show farmers the expenses in terms of labour and equipment a buyer needs to make in order to be successful in the business. Through this experience, farmers might better understand the quality requirements buyer need, which in turn helps the farmers in grading in the field.

4.4.3 Transport Arrangements

As mentioned in Chapter 3, especially in the beginning some companies do not have enough working capital to provide their own means of transport but need to **subcontract an external transporter** to do the logistical part of the transaction. This however, often brings in complications because the transporters have their own interests, which sometimes contradict with the company interest. In the field study, interviewees narrated that sometimes transporters mixed produce on the way. Finally, when the produce arrived in the factory part of it was rejected or the price reduced due to lower quality. Therefore, it is critical to find a trustworthy transporter or develop an arrangement like the potato farmers in Bomet where a representative of the producer group joins the truck to its final destination to supervise what happens on the way and in addition receives the payment cheque.
Connected to the transport, it was seen as an advantage if the company driver also has some technical knowledge and can act as a technical advisor disseminating important information and little extension services.

4.4.4 Contract Farming Models and Contract Design

During the study, it became clear that all different models of contractual arrangements exist in Kenya (see also 3.6). The degree of formality varies and quite a number are rather informal mainly based on mutual trust and verbal agreements. Others have developed contracts as documents to formalize the cooperation. To determine which linkages are more formal than others is relatively difficult because it might happen that well organized companies which provide the farmers with inputs, extension and transport thus giving a formal impression on the other hand don't feel the need to issue contracts and therefore could also be categorized as informal. The contracts used in the various arrangements all differ in their design, and cover the critical areas with various levels of thoroughness. Their content also depends on the assistance, which was given during the drafting of the contracts. Some companies were given advice through HCDA or donor-funded projects such as Kenya Business Development Services Programme (in case of East African Growers) and have employed a contract manager (e.g. Frigoken).

In the following, a number of observations about the design of contracts are mentioned.
Some contracts …

- … only fill one page while others elaborate for six pages on the company's and the farmer group's responsibilities, ethical trading requirements as well as penalties and bonuses. The appendix might list additional important documents, which accompany the contract such as a protocol of signatures of all members of the farmer group, quality and grade specifications as well as a recommended list of pesticides.
- … are based on the amount of seeds farmers are supposed to plant in a certain period (French beans). Therefore, the amount finally harvested is an estimation based on expected yields. However, experience shows that farmers' abilities and climatic conditions vary and thus the expected yield might differ a lot from the actual one. Consequently, farmers might for instance produce too much and the company is unable to purchase the entire quantity. In such a case, the establishment of a demonstration plot in various areas might help to obtain a better estimate.
- … restrict the amount of seeds small-scale farmers are allowed to grow. This is supposed to reduce the farmer's risk of dependency on the cash crop, food shortages as well as indebtedness due to the purchase of inputs on credits.
- … have not been revised for a long time and therefore the arrangements they mention concerning input provision for instance might be outdated.
- … do not mention the rejection procedure or common policy of the respective company when it comes to rejection, whether there is a certain tolerance level or what happens with the rejected produce.
- … fix the product price for a long time, e.g. one year which might increase the risk of extra-contractual marketing by farmers.
- … mention the sentence dealing with "*Force Majeuer*" in a very unspecific way which leaves some room for speculation.
- … do not have a termination clause.
- … in the signature section do not mention whom or which institution the witnesses represent.
- … are renewed without involving the producers in renegotiations.

Table 3 summarises factors, that influence CF and were mentioned in this section and shows which positive or negative implications they might involve.

Table 3: Summary: Factors Influencing Contract Farming

Factors influencing CF	**Implication for CF arrangement → positive**
Perishable commodity…	…favours CF
Requirement of tight quality standards…	…can be better controlled through CF
Labour intensive production systems…	…promote CF because they would be too expensive otherwise
Good infrastructure…	…permits low transportation costs for the entire sector, favouring both buyers and sellers
Company ethic…	…can help to overcome problems with small-scale farmers
Regular communication and good company representation on the ground through field staff…	…can help avoiding extra-contractual marketing
Trust in business relationships…	…is a major prerequisite for successful CF
Well educated committee members …	…understand contract implications easier
Functional legal framework…	…might help to handle contract breach
Technical knowledge of transporter…	…might help to discover problems easier
Stationing of a company grader in the field…	…might improve farmer's grading practices and more rejects would occur in the field
Factors influencing CF	**Implication for CF arrangement → negative**
If a product is easily available in the open market…	…than there is no incentive to produce and procure via CF
Poor access to infrastructure…	…limits marketing opportunities (but might favour local monopsonies).
High competition in the market…	…increases risk of contract breach and opportunities for free-riding
Lack of entrepreneurial culture…	…might increase the unsuccessfulness of some farmers and finally lead to the failure of the entire CF venture
Cooperation of different ethnic groups…	…might cause difficulties due to cultural differences and lack of trust
Subcontracting of external transporters…	…might cause complications
Product price fixed for a long time…	…might increase the risk of contract breach (→ renegotiate)
Contracts based on amount of seeds…	…lead to uncertainties in quantity to be delivered (→ set up demonstration plots)

Source: Own compilation.

5 Conclusions: Contract Farming and Development Cooperation

This last chapter draws conclusions about the future of contract farming in Kenya and the role of the government as well as development partners when it comes to CF promotion.

5.1 Contract Farming in Kenya

There are a number of reasons suggesting that contract farming will have the tendency to increase in Kenya in both the land areas used and commodities covered.
Horticultural companies currently working with informal agreements will start using contracts more often in future. This is especially the case for companies, which have to comply with EurepGap, which can be well regulated through contracts. Thus, the cooperation will become more formal.
For crops traded on national markets such as potatoes, the usage of contracts may also increase in value chains such as chips processing, where specific qualities of certain varieties are not easily available on spot markets. Therefore, rising standards also in the local market might foster the increase of contract farming as a method to ensure the demanded quality.
The regional distribution of contract farming is likely to expand to currently untouched regions as the land and labour availability in the high potential areas of the central highlands is getting scarce. Increased sales of fruits and vegetables via Kenyan supermarkets or hotel chains might be another driving force for the expansion of contract farming.
Socio-economic factors such as improved road and telecommunication networks as well as higher education standards are likely to contribute to an increase in the use of contract farming methods.

5.2 Role of Government Institutions and Development Cooperation

The NEPAD conference in Entebbe, Uganda (see 1.2) resulted in the formation of the interdisciplinary *Kenya Contract Farming Task Force*, which is expected to continue working on nationwide best practices and generic material to foster CF as well as improved legal framework for CF (see also Appendix 10).

Development partners can play a number of facilitating roles, in particular in supporting governments in improving the business environment, in linking farmer groups and companies and to lobby for export products on international level.

The following proposed actions are based on the discussion held at an expert forum on CF in January 2006, in which preliminary study findings were presented[13]. Table 4 summarises the actions, which are subsequently described in more detail.

[13] We acknowledge in particular the participation of CF Task Force members, MoA officials, and representatives from HCDA, Tegemeo Institute, Kenfap, DED, Danida, EU Commission and private agribusiness sector.

Table 4: Summary: Proposed Actions for Improving Contract Farming in Kenya

No	Action	Responsibility
1	Ensure favourable policy environment for CF (e.g. enabling business environment)	Ministry of Agriculture, HCDA
2	Provide functional legal and institutional framework	Ministry of Agriculture and related ministries, HCDA
3	Foster the harmonisation of standards (EurepGap and others)	Kenyan Government, neighbouring countries, International Trade organisations
4	Improve rural infrastructure, particularly road network	Government (donors to stress its importance and to provide additional resources)
5	Strengthening of farmer's organisations	Kenfap
6	Provision of market access and information	MoA and other ministries, BDS providers (e.g. KACE)
7	Capacity Building; e.g. Farmer trainings, FAAB	MoA, HCDA, KARI, Kenfap, buyers and BDS providers
8	Promote Exposure visits	Companies, Development partners
9	Develop/revise CF guidelines	Kenya Contract Farming Task Force (with support of MoA, donors)
10	Reform HCDA(?)	MoA and stakeholders

Source: Result of discussions held at presentation of study findings, MoA, 27.01.2006.

1. Policy Environment

The attendees of the presentation end of January 2006 agreed that the establishment of a favourable policy environment that ensures that all parties (farmers and agribusiness companies) are equally protected by the law is primarily the role of the Ministry of Agriculture in conjunction with its agencies such as HCDA. Farm-agribusiness support policies should be based on the needs of the main actors but minimise rules and regulations and give maximum responsibility to the stakeholders (Wambua, 2002). The policy must clearly spell out the roles of the government and interest groups in the management of the sector. It should also indicate the institutional framework established for resolution of issues in the sub-sector.

A policy on horticultural development in Kenya has been drafted with input of the Task Force for Horticultural Development (also called Standing Committee on Horticulture) involving stakeholders of all relevant players in the horticultural sector. As the policy, which is part of the SRA strategy, is still being reviewed, it has been suggested to incorporate issues concerning contract farming and the above-mentioned CF Task Force might be the right forum to discuss it when it comes to horticultural crops. In addition, the need of a food law was discussed. The review of the horticultural policy could involve a reform of HCDA if regarded as necessary by the sector.

2. Legal and Institutional Framework

The government with support of development Partners should revise the laws governing the agrarian sector; accelerate the reform process to come up with an agricultural policy framework to make it more transparent, efficient and equitable; and enable legal enforcement of contracts between agribusiness companies and farmers.

3. Harmonisation of Standards

Some agribusiness firms, complain that there are too many standards and EurepGap is not the only one. It is difficult and costly to implement all of them, and therefore, the agricultural sector calls for harmonisation of standards to make it manageable and affordable. Donor agencies could support the government in this respect and lobby for harmonisation in international trade negotiations and the European private sector retailers.

4. Physical Infrastructure

It has been noted that physical infrastructure such as good roads and telecommunication networks are important factors for contract farming as well as the further development of the agricultural sector and the competitiveness of Kenyan products in a global market. Therefore, development partners should continues funding infrastructure projects and stressing the importance of the sector towards the Kenyan governement.

5. Famers' Organisations

Contract farming is about bargaining and power dynamics. Since individual farmers are too weak, collective action issues should be strengthened to enhance market power and thus farmers might be better represented during contract negotiation (Ochieng 2005b).
Everyone in the stakeholder forum agreed that strengthening of farmer's organisations plays an important role and Kenfap should be the umbrella body coordinating this activity. Kenfap should make contract farming a topic in its work and it is encouraged to establish an "association of contracted farmers". However, contract farming could also be tackled by the various commodity-based organisations, which are already in place and housed by Kenfap. HCDA mentioned it had started a similar organisation some time ago but that it did not achieve much due to lack of funds. Kenfap has been asked to inform donors and the Ministry of any points where assistance is needed.

Since Self Help Groups are not a legal entity, they cannot be taken to court. The government should pave the way to another form of "simple co-operative", which should be accessible to more farmer groups. The current structure of co-operatives in Kenya is too bureaucraticand not favouring CF producer groups. Furthermore, a more legal/official form of organisation could enable farmers to get access to credits if they could use the contracts as collateral.

6. Market access and market information

In addition, issues of market access and information were discussed after the presentation. Here, the major players are MoA, MoCoDM, KACE, BDS providers and Kenfap. So far, some farmer groups stick to their buyer for several years even though they are not satisfied with the cooperation because they are not aware that they had an alternative. Therefore, it has been noted that information and in particular its dissemination play a crucial role when marketing activities are to succeed in the long run. In order to overcome first mover problems development organisations could act as promoters of farm-agribusiness linkages and connect farmers to markets. This can be done actively or at least through the provision of information e.g. give buyers information about farmers and their products and inform farmers and farmer groups about which buyers exist in the market, e.g. spread the HCDA list of exporters so that they have alternatives to choose from. Kenfap has started to establish a database on larger buyers and it was suggested to continue with this and take stock of the bigger companies that are willing to contract farmers to supply local, regional and international markets. It should however be mentioned that the collection, provision and dissemination of information has cost implications.

7. Farmer Trainings

Some farmers market their produce outside their contract when they realise that they could obtain higher profits in the open market. Farmer trainings can help building knowledge on two things that are of importance in that respect: a) the value of stable business relationships, and b) the implications for the farm cash flow. Economic trainings such as "Farming as a Business", should involve contracted farmers as case studies, should discuss the long-term benefits a contract may entail, could illustrate the importance of honouring of a contract and should dwell on adequate dispute settlement. Furthermore, knowledge of implications of standards (certification, traceability, etc) should be promoted. Leading institutions in this respect are MoA, HCDA, KARI, Kenfap, the buyers themselves and various BDS providers. During such trainings, government officers should also be involved and given a chance to acquire further education.

8. Exposure Visits

Farmers often believe that buyers must make a lot of profit and are unable to imagine the problems those are facing in another link of the value chain. Therefore, a visit to the processing plant or packhouse of their respective buyer can serve as a revelation to show farmers the expenses in terms of labour and equipment a buyer needs to make in order to be successful in the business. Through this experience, farmers can better understand the quality requirements the buyer needs that in turn helps them in their grading procedure in the field. Furthermore, such interaction might create a closer bond between the two parties and thus increase the compliance with the contract. HCDA can assist in such visits through the provision of transport.

Additionally, it was noted that buyers often do not know the production costs of farmers and therefore should get more exposure to that as well.

A third kind of exposures could be the facilitation of Kenyan companies to be represented in international trade fares in order to market Kenyan products abroad.

9. Development of CF Guidelines and the Role of the CF Task Force

If it is a goal to promote CF in Kenya as a tool for economic development in the agricultural sector, then well-developed guidelines, mentioning the elements that are obligatory to be contained in a legally binding contract according to Kenyan law, should be developed. A number of companies, which did not use formalized contracts so far or are just about to implement contractual relationships with farmers, might appreciate such an instrument since this would reduce their costs of designing a contract of their own.

As mentioned in Section 2.3.2, HCDA has published a Code of Conduct in 1997, which should have acted as a memorandum between the buyer and the seller of fresh horticultural produce and serve as a guideline for both parties in order to conduct good business practices (Appendix 8). Furthermore, it mentions 17 important points, which provide a framework to the development of a legally binding contract. A number of years have passed since this Code of Conduct was written. Therefore, it might be advisable to revise the version from 1997 and assess whether it still meets the standards of today. In case not, a new version could be developed involving the views of the stakeholders of the sector.

In addition, while HCDA was still engaged in own marketing operations, it developed a contract based on its own Code of Conduct (Appendix 9) which could now deal as a basis to develop a generic contract if the companies in the sector are interested in such a document.

It would be interesting to have a look at existing farmer group by-laws and assess whether they are sufficient for contract farming operations under the latest EurepGap regulations. If need arises the development of generic group-by-laws might be necessary as well.

These three main issues might all be an assignment for the Kenya Contract Farming Task Force (see also Appendix 10). The donor community could facilitate this process and once the guideline, the generic contract and group-by-laws have been developed, disseminate them so that farmers and agribusiness companies profit from them.
As mentioned earlier, a lot of literature exists around contract farming issues and therefore, a recommendation might be to concentrate on a thorough study of the information already available, which can give valuable information beyond this report and make further field studies unnecessary.

10. Reform of HCDA

Since part of the agribusiness community in Kenya doubts HCDA's capacity to do business including being an arbitrator when it comes to contract farming, some reforms might be required.
HCDA needs to give up the idea of being a regulator but rather an advisor. It should reduce its bureaucracy e.g. when it comes to hiring of facilities and be more flexible in its activities enabling efficient and profitable business. *(This issue should be verified from more stakeholders since the information is based on only one source.)*

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Relevant Websites

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HCDA: http://www.hcda.or.ke/conduct.asp

Homegrown: http://www.f-h.biz/introduction.asp?bandwidth=big

Appendices

Appendix 1: Terms of References (for this study)

1. Background to Contract farming

Small-scale farmers often face a lot of difficulties in production and marketing of their produce. They usually sell their produce individually at the farm gate to middlemen or on open local markets at given prices. This reduces farmers to just price takers irrespective of the costs they have to incur in the production and marketing process. Furthermore, they have to bear a high risk of being not able to market their produce.
On the other hand, processors often are not able to procure the quantity and quality of the product they are looking for.
Contract farming is a possibility to improve such a situation. It is one form of vertical co-operation along value chains where a farmer or a producer organisation co-operates with a marketing partner (wholesaler or agro-processor) by stipulating regulations and mutual liabilities within a contract on the production, supply and acceptance of the agricultural produce. Through well-managed contractual agreements transaction costs as well as risks on both sides can be reduced. The ultimate objective is to achieve a sustainable long-term collaboration between producer / producer organisation and the marketing partner, resulting in a Win-Win situation for both sides, based on mutual trust.

Importance of contract farming in value chain promotion
For both sides there are several incentives to enter into contractual arrangements. Some of them are of particular importance when it comes to Value Chain promotion.

Motivation for producers (sellers)

- Long-term guarantee for production (full utilisation of production capacities)
- Security for sale of agricultural production for certain quantities
- Minimisation of risks and distribution of risks
- Increase of income through favourable prices for inputs as well as for agricultural produce
- Improvement of cash-flow by pre-financing of inputs and advance payments
- More transparency and minimisation of losses through lack of information by mutual agreements
- Contract farming is a mutual process in decision making, therefore, farmers do have influence on the process of marketing

Motivation for agro-processing industry (buyer)

- Exclusion of price fluctuations in purchasing the agricultural produce;
- Long-term security of quantity and quality of produce and hence increased security in marketing of processed product;
- Efficient utilisation of capacities;
- High transparency and flow of information contributes to minimise transaction cost;
- Possibility to influence important parameters of production such as quality;
- Possibility to facilitate access to new markets backed by a strong producer group.

When processors are able to purchase the raw material they need in terms of variety, quality, food safety standards, traceability etc. they might expand their production. Even export markets might be more accessible. In this way, contract farming directly promotes Value chain development and ultimately the economy.

Challenges in contract farming in Kenya

In theory, contract farming seems to be full of advantages but in reality it has not become so common (even in "advanced economies") as it could be assumed.

Due to failure to honour the contract, many producers as well as buyers and processors are shy to enter into contract farming. On both sides there are several occasions that lead to contract breach, i.e.:

Breach on the producer's side

- Farmers often sell their produce outside the contract to other traders when offered a better price.
- Farmers sometimes divert the inputs they have been given (such as fertilizer, pesticides, irrigation..) to other products on their land not cultivated under the contract, thus resulting in lower yields for the contracted crop than expected.
- When not able to supply the contracted amount of produce, farmers might buy from other farmers in order to fulfil their quota. In this way, the quality is likely to be compromised and the sustainability of the contract is at risk.

Breach on the processor's side

- The processor might not pick up the produce or not the entire amount of produce as agreed earlier.
- The processor might not pay the price agreed on in the contract.
- The processor might complain about the quality of the produce even though all standards have been met and reject the produce. The real reason for the reject however is not the quality but the marketing or processing limitations of the processor.

2. Study on Contract Farming

Currently, there is not sufficient information on the state of contract farming in Kenya. The factors that contribute to its success or failure and the reasons why it is not more common than it is are not clear. The way in which contract farming can achieve the development of stable business relationships is equally unknown.

Therefore, there is need to carry out a study of the situation with a view of determining the best way forward with respect to contract farming.

Research question (for case study in Kenya)

The study will give answers to the following questions:

- What is the state of the art of contract farming in selected value chains?
- What are factors (type and attributes of products, regional location, socio-economic factors of involved farmers) determining failure and success concerning contract farming?
- How can trust building between buyers and sellers be achieved and thus honouring of the contract enhanced?
- How important is the legal framework for CF to exist and/or to become more common? Is there a need for legal back up in this?

Primary results after literature review

After going through part of the literature and first experiences in the field, some initial Hypotheses can be drawn on CF in Kenya.

- CF is mainly common in high **potential production areas** (e.g. in Kenya around Mt. Kenya) since irrigation possibilities and climate provide good quality crops and also a steady supply.
- Contract farming is of particular importance in export horticulture. **Standards** that need to be met such as EurepGap are better to monitor through CF arrangements.
- Good **infrastructure** such as proximity to good roads is an important determinant. Therefore, the poorest of the poor farmers who live in underprivileged areas cannot profit from possible CF advantages.
- CF **Farmer groups** need to be already well established in order to be successful and reliable partners.
- The higher the education of the farmers, the better they can deal with contractual arrangements, understand the importance of honouring the contract and negotiate with the contract partners.
- The better farmers are organized e.g. in an organisation like Kenfap, the more support they get from there, and the better the legal framework of the respective country is, the more likely is that farmers would take some legal action when the partner breaches the contract.

3. Objective of the Investigation

The objective of the study/investigation is twofold.

- First, it should contribute to the understanding of the factors that impact on contract farming. This study is expected to provide the PSDA programme and other interested stakeholders with valuable information about the mechanisms and the state of the art of contract farming in Kenya. The study should provide the reader with a better understanding, views of the involved parties including their characteristics, their strengths, the comparative advantages (where they exist) and the inefficiencies in contract farming. The investigation into contract farming will help the PSDA Programme to identify possible areas for support to farmers and processors to improve the environment for private sector development and thus, strengthen the competitiveness and growth potential of producers. Ultimately, the results of the study should indicate opportunities and potential areas of intervention and pinpoint activities to be undertaken by private sector, public sector stakeholders and the possible role of development partners in value chain coordination.
- Second, the study is the empirical research basis for Kathrin Strohm's Master Thesis, intern in the PSDA office and student of the master program of Agricultural Sciences Majoring in Agricultural Economics at the University of Hohenheim in Germany.

4. Scope of the Work

The research will involve

- Review of available literature on Contract farming and in particular CF in Kenya.
- Development of a questionnaire
- Key-informant interviews with various stakeholders (using the questionnaire) including farmers, traders, processors and other organisations that are dealing with contract farming such as FAO, KENFAP, MoA, HCDA etc.
- Attendance of the Contract farming Conference 21st to 25th of November 2005 in Entebbe, Uganda

- Produce a final report to the PSDA programme
- Prepare a presentation

The questionnaire will assess the following:

- Investigate the issues around contract farming with respect to
    - Produce standards as required by buyers and suggest how these could be achieved
    - Mode of paying farmers especially in groups
    - Transportation of produce from farms to factory if the processor or buyer does not want to be involved.
- What are the various forms of farming contracts?
- What are the steps followed in entering into contracts and implications in each case?
- What are the main causes of dishonouring of contracts and how could these be addressed?
- Investigate the importance of Contract farming for the Value Chain approach of PSDA!

5. Expected Outputs

According to the two mentioned objectives of this study there are also two major outputs.

<u>On side of PSDA</u>

- Final report for PSDA program with the main findings of the investigation including reference literature and contact persons
- Presentation of the main findings in a stakeholders workshop

<u>On side of Kathrin Strohm</u>

- Report to PSDA will be part of the master thesis which will be finalised in Germany

6. Timing

- **Field research:** December 2005 and part of January 2006
- **Compile data:** start before Christmas, continue in January 2006
- **Deliver draft report:** 23.01.2006
- **Presentations:**
    - Kenya Contract farming Task Force meeting, 17.01.2006: focus on literature, potatoes, poultry and passion fruits
    - 27^{th} of January 2006: PSDA intern plus other interested persons
- **Deliver final report:** end of March 2006
- **Master Thesis:** May-June 2006

7. Working Arrangements

PSDA will provide a driver for fieldwork and facilitate the assistance of a co-researcher from Kenfap (Daniel Mwenda) and Kari (Peter Kinyae) and supervise the study.

Appendix 2: Overview of Sample Structure

Who		Value chain	Contractor	Where
Farmer groups – Individual farmers	Nyakio S.H.G.	French Beans	Frigoken	Kirinyaga
	Muthukia S.H.G.	French Beans	Frigoken	Kirinyaga
	Kibirigwi Irrigation Farmers	French Beans	Highlands Canners	Kirinyaga
	New Kagongo S.H.G.	French Beans	Kenya Horticultural Exporters (+Drumnet)	Kirinyaga
	Manjuni S.H.G.	Snow Peas	Indu-Farm	Nyeri North
	Kithoka Horticultural Growers	French Beans	Homegrown	Meru Central
	Miathene Mango Growers	Mangoes	No	Meru North
	Itabua/Muthatari Water Society	Mangoes	No	Embu/Mbere
	John Niaga	Mangoes	No	Embu
	Kithoka Horticultural Growers	Passion	East African Growers	Meru Central
	Uthari wa Rupingazi	Passion	No	Kirinyaga
	Kipsiwon S.H.G.	Potatoes	(Deepa Industries)	Bomet
	Kipkebe S.H.G.	Potatoes	Deepa Industries	Bomet
	Naramatishu S.H.G.	Potatoes	(Njoro Canners), Steers	Narok/Olokurto
	Kibirichia Potato Farmers	Potatoes	No	Meru/Kibirichia
	Paul Njue	Poultry	Hotels	Embu North
	David N. Mbai	Poultry	(Kenchic)	Machakos
Exporters Processors	Meru Greens Horticulture	French Beans		Meru
	Indu-Farm (EPZ) Limited	Fruits and vegetables		Nairobi
	Greenlands Agroproducers	Fruits and vegetables		Nairobi
	Frigoken Limited	French Beans and others		Nairobi + field
	Kim's Poultry Care Centre	Poultry		Nakuru
	Kevian Kenya Limited	Mangoes and other fruits	Not yet contracting	Nairobi
Others	Drumnet (NGO)	French Beans, passion		Kirinyaga
	Kenfap - Business services			Nairobi
	HCDA	Fruits and vegetables		Nairobi

Appendix 3: Questionnaire Contract Farming

	Date of Interview:	Interviewer:
	Location:	Protocol:
	Duration:	Translator:
Section 1: Basic Info on group → General Status quo Analysis		
	History of the group **Could you please tell us something about the start-up of your group and its development until today!**	
	Year of foundation/group registration?	
	Why have you chosen to form a group?	
	Number of group members (m/f)?	
	Which products do you grow?	
	Average farm size?	
	Do you have experiences with contract farming?	☐ yes ☐ no
	Are you currently engaged in formal CF?	☐ yes ☐ no → proceed with section 3
Section 2: Formal contractual arrangements		
2a Could you please tell us more about your contractual arrangements, who the contractor is and how it came into being!		
	Who is your current contractor (buyer/processor)?	
	How did it come into being, who was the initiator? Did you have support in drawing the contract, negotiating? How much time did you have to discuss the contract with group members?	
	For how many years have you been farming under a contract? • With the current contractor? • With others? • Which products?	
	Who was negotiating the current contract and how?	
2b Could you please tell us more about the <u>specific elements</u> of your current contract such as the product, quantity, embedded services etc.!		
	What is the duration of the current contract?	☐ 1 year ☐ 6 months others:
	Produce	
	Quantity/planting programme	

	Prices	☐ fixed at ☐ minimum or range
	Quality, specified and how?	☐ yes ☐ no
	Who does the grading?	☐ farmers ☐ special graders ☐ trained ☐ not trained
	Input supply: **Who is in charge of what? What does the buyer supply and what the farmers?**	
	Seeds	☐ farmer ☐ buyer (must) ☐ on credit
	Fertilizer	☐ farmer ☐ buyer (must) ☐ on credit
	Chemicals, pesticides, herbicides	☐ farmer ☐ buyer (must) ☐ on credit
	Mode of payment and inputs on credit: **Could you please tell us more about the arrangements in this respect! How does it work?**	
	Who is paid?	☐ group ☐ individual farmers
	How are you paid?	☐ cheque ☐ money transfer ☐ cash
	Frequency of payment	☐ weekly ☐ every 2 weeks ☐ monthly ☐ oth
	In case you are paid by cheque: How much do you pay to cash the cheque?	
	When/how is the loan deducted from your sales?	
	What percentage goes into servicing credit?	
	Is there an interest rate?	
	External support: **Could you please tell us what kind of external support you receive in the various areas of production and marketing and by whom!**	
	Production	how often: ☐ no
	Chemical application	how often: ☐ no
	Record keeping	how often: ☐ no
	Water management	how often: ☐ no
	EurepGap training	how often: ☐ no
	grading	how often: ☐ no
	Do you know where to get advice or information on contract farming?	
	Transport of produce: **Could you please tell us more about the way the transport of your produce is organised!**	
	Where is the produce picked up?	
	Distance from pick up point to next main road or factory.	
	How often is the produce picked up?	
	Who pays the transport costs?	

	Are there documents, which have to accompany the produce (traceability)?	
	To whom do the crates belong?	
	Rejection of produce: **What is your experience with rejections of your produce?**	
	Is there anything mentioned in the contract how to deal with rejections? (price reduction)	
	Where does the rejection take place?	
	How is it justified? What are reasons?	
	Do you have a possibility to intervene?	
	What happens with the produce when it has been rejected?	
	Legal issues in the contract and its enforcement	
	Please tell us whether the contract has an exit/termination clause for both parties?	
	Are there clear sanctions to mitigate breach?	
	Is an arbitrator specified?	
	How to deal with force majeure/natural calamities/natural risks? Is there risk sharing?	
	Who signed the contract? Any witnesses present (HCDA, MoA)?	
	Group mechanisms/group management: **Could you please tell us more about your mechanism and the way in which you manage your group!**	
	Are there charges for group management?	
	Does the group have written by-laws (rules and regulations including sanctions)?	
	How often do you meet?	
	Standards: **Could you please tell us your experience with standards such as EurepGap!**	
	Have you heard of EurepGap?	
	Are you in the process of getting certified under EurepGap?	
	Which way of Certification do you choose? (Option 1 or 2)	
	How do you finance the certification process?	
	Do you get support (technical, financial) from your contractor?	
	Is there pressure from your contractor to get certified as soon as possible?	

2c Are there any things you would like to be added to/regulated by your contract? How should the ideal contract look like?		
2d What kind of support do you wish for your future engagement in Contract farming?		
2e Problems/challenges faced by the group: **Please tell us the problems you were faced with since you entered into contract farming?**		
	Was there contract breach?	
	Who breached the contract and why?	
	Pick up of produce	
	Mode of payment	
	Price	
	Input supply	
	Quality of seeds	
	Efficacy of chemicals	
	Extension service, support, training	
	Quality of fertilizers	
2e Advantages/disadvantages of contract farming		
	Which **advantages** do you see for you as a **farmer group** being engaged into contract farming?	
	Which **disadvantages** do you see for you as a **farmer group** being engaged into contract farming?	
	Which **advantages** do you think does the **buyer** have when engaged in contract farming?	
	Which **problems** do you think does the **buyer** face when engaged in contract farming?	
Section 3: Informal arrangements (no CF experiences)		
3a You told us that you don't have any experiences with Contract farming so far. So please tell us more about the way you market your produce!		
	How do you market your produce at the moment?	
	Where do you market your produce at the moment?	
	Are you satisfied with your current marketing system?	

	• In case no, what are the reasons/problems you face in marketing your produce?	
	Did you ever think of entering into contractual agreements?	
	• In case yes, why did you not start any contractual agreements, so far?	
	• In case no, give reasons why?	
	What could be reasons for you to enter into contractual agreements with a buyer?	
3b Even though you don't have any experiences with CF so far, could you think of any…		
	advantages you could have as a **farmer group** being engaged into contract farming?	
	Disadvantages you could have as a **farmer group** being engaged into contract farming?	
	Advantages a **buyer** could have when engaged in contract farming?	
	Disadvantages a **buyer** could have when engaged in contract farming?	

Could I have a look at your current contract?

<u>Further guiding questions for expert interviews:</u>

- What do you think which role should institutions like MoA and HCDA or bilateral programmes like PSDA play in order to improve the current situation in CF?
- What are the main driving forces for XY as a company to enter into CF arrangements?
- What are criteria XY takes into consideration when contracting farmer groups (size, volume delivered, establishment of the group, location in a certain area, EurepGap…)?
- How is the process/what are the steps in contracting new farmer groups?
- Which are the challenges/problems you are faced with as a processor/buyer/exporter concerning farmers you are working with and buyers in Kenya or abroad?
- Does all the produce you are processing/packing come from formally contracted "outgrowers"?

Appendix 4: List of Interview Partners and Key Informants[14]

Name, Organisation, Position	Contact information	Contract farming information
General		
Daniel Mwenda Mailutha Regional Co-ordinator Mt. Kenya, **KENFAP**	0722-494934 020-608324 dmmwendah@hotmail.com P.O. Box 43148	Joined Kathrin Strohm to the field Mt. Kenya region and has contact to several farmer groups there
Kenya Gatsby Trust www.kenyagatsby.org P.O. Box 44817 Nairobi 020-2720711 / 2720703 Fax : 020-2721707 ACK Garden House, 1st Ngong Ave. 6th Floor, Wing 'D' Jane Mung'oma, Programme Officer jmung'oma@kenyagatsy.org 0722-201233 and 0735-337661		Is involved in linking Kevian Kenya Limited to Mango farmers.
Horticultural Crops Development Authority, HCDA P.O. Box 42601 Nairobi TEL. 254 2 827260/61 FAX 254 2 827264/63 Grace W. Mbuthia: 0722-293929 hcdamd@wananchi.com http://www.hcda.or.ke/		Grace gave session during contract farming meeting in Nyeri and would repeat such.
TechnoServe – Kenya* *Sclatter's House – 3rd Floor* *Parklands Road* *Nairobi, Kenya* *Tel: 254-20-375-4333 (or 4334 or 4335)* *Fax: 254-20-375-1028* *info@technoserve.or.ke* *Antony Bugg-Levine* *Country Director Kenya*		
Egerton University, Faculty of Agriculture* *Dr. Obare: 0721-360811 and 0733-918674* *gobare@africaonline.co.ke*		*Wrote article on Contract farming in 2003 – see literature list*
French Beans		
Frigoken Limited www.frigoken.com P.O. Box 30500 Nairobi 020-8560096/7 Peter Muthee Mwangi, agronomist 0733-613251 and 0721-383551 and 0722-203396 peter@frigoken.com		Contracts farmers in different ways.
Frigoken Limited Mr. Wahome, contract manager	0722-364851	most of the time in the field: Nyeri: Tuesday or Wednesday; Kirinyaga: Thursday and Friday; Machakos: Saturday

[14] The resource persons marked in *italics* and with * were mentioned by other interview partners but could not be met in person due to lack of time.

Frigoken Limited, Murang'a Scheme Edward Chege Field officer for irrigation and community development	0721-991264 060-30848 edchege@yahoo.com P.O. Box 1166 Murang'a	Has experience with energy saving stoves, interested in bee keeping
New Kagongo S.H.G. James Kariuki Muchira, Transaction agent	P.O. Box 3 Kianyaga 0724-867232	One of PSDA EurepGap groups → Only grows beans for Frigoken (in Murang'a scheme) when not growing for fresh market, KHE
Nyakio S.H.G. Hesbon Mutugi, Group Chairman: 0723 – 828824 Field officer, 0720 – 554312 Lydia Nyaga, Frigoken, QM advisor : 0724 – 360764 P.O. BOX 53 Kagio		Grows for Frigoken; Was initially selected as one of PSDA EurepGap groups but then changed.
Kamusa Horticultural Growers S.H.G. Chairman: Peter Gichonge: 0723-476460 Secretary: Peter Kinua Muriuki: 0724-102358 Frigoken advisor on the ground: Alex Njagi, 0725-513418 P.O. Box 1004 Karatina		Grows for Frigoken; The group is located approx. 45 minutes away from Nyeri town, passed the state Lodge, Mathira
Meru Green Horticulture P.O Box 1730 Meru Tel.: 064-30529 Rosemary K. Muthomi, General Manager: 0722-280981 and 0733-595268 Gerald Muthomi, Director: 0722-783045 and 0733-222122 geraldmuthomi@yahoo.com		
Indu-Farm (EPZ) Limited P.O. Box 42564 Nairobi info@indu-farm.com Tel: 020-55025/6/7 Fax: 020-550220 Grace Loballo, Production Manager: 0733-731826 Christian Benard, Director: 0722-516308 cbenard@indu-farm.com		Normally in the office in Nairobi Monday and Tuesday, rest of the week out in the field.
Manjuni S.H.G. → contracted by Indu-Farm Christopher Magima, Chairman: 0721-351250 Paul Maina, Secretary: 0723-706714 Esther Gathigia, Vice-Secretary: 0723-575107 P.O. Box 2728 Nyeri **Location of the group:** North of Nyeri, shopping centre Chaka, divert coming from Nyeri to the right towards Mt. Kenya. When the tarmac road turns to the right in direction of state house and Mountain Lodge, go straight. After Kimahuri turn left. In total, 18km away from junction in Chaka.		
Kithoka Horticultural Growers S.H.G. Gabriel Thurania Chairman	P.O. Box 2978 Meru 0721-309146	Supplying Homegrown since 2002
Pride Africa, Drumnet Tony Kirinyaga Zack L. Lenawamuro	P.O. Box 39320-00623 Nrb 0722-614179 zlejipis@yahoo.com	Contact person for New Kagongo S.H.G.
Kenya Horticultural Exporters Limited* *Manu Dhanani, Director*	*P.O. Box 11097 Nairobi* *020-650300/1/2* *Fax : 020-543857* *manu@khekenya.com*	*Contracts farmers via Drumnet*

Homegrown Kenya Limited* *Mr. R. Evans* *Mr. John Simeon*	*P.O. Box 10222 Nairobi* *020-573800/574193/574198* *Fax: 020-574838/574940* *admin@homegrown.co.ke* *www.flamingoholdings.com*	*Contracts farmers for various horticultural produce*
Highlands Canners Ltd.*		
Njoro Canners Ltd. *		
Kibirigwi Irrigation Farmers Cooperative Society Ltd. Mr. Wangaragu, scheme manager MoA: 0721-647731 Mr. Muigai, scheme manager MoA: 0721-683478		Selling to Highlands. One of PSDA's Eurep-Gap groups.
Greenlands Agroproducers Ltd. Geoffrey Murungi, Managing Director: 0733-721539 murungim@greenlands.co.ke 020-827079/80/81/82, P.O. Box 78025 Nairobi		Dealing with fruits and vegetables
Mangoes		
Individual large scale farmer **Councilor John Nyaga**: 0721-339074 and 0724-868769 Wife, managing farms: 0723-867713 P.O Box 222 Embu		Mangoes and other fruits
Itabua/Muthathari Water Society P.O. Box 1944 Embu itamuws@yahoo.com Chairman, Mathew Wainaina: 0722-783297 Vice Chairman, Josphat Githinji: 0722-936490 Office, Cosmas Nthiga: 068-31361		Mainly mangoes but also passion and avo-cado
Miathene Horticultural Growers S.H.G. P.O. Box 99 Kianjai (Meru North) Chairman, Justus Kithela: 0733-924502 Secretary, Julius Kithure: 0733-456646		Mainly mangoes but also want to start with passion fruits
Kevian Kenya Limited Richard Kimani Rugendo, Managing Director 020-3867247 / 3870375 / 3873313 Fax: 020-3866225 stercraft@iconnect.co.ke P.O. Box 25290-00603 Lavington, Nairobi		Wants to start producing his own fruit concentrate for juice production.
Finders in Africa* *P.O. Box 15461 Nairobi* *020-2717653 /564857* *Mugo: 0722-799920* *findusin@iconnect.co.ke*		*Processing dried man-goes and selling in su-permarkets*
Passion Fruits		
Kithoka Horticultural Growers S.H.G. Gabriel Thurania Chairman,	P.O. Box 2978 Meru 0721-309146	Contracted by East Afri-can Growers Ltd. since 2004
East African Growers Ltd.* *George Solomon* *Outgrowers Scheme Manager*	*020-822025* *0733-604913* *george@eaga.co.ke* *P.O. Box 49125 Nairobi*	*Contracts a number of farmer groups in Embu and Meru Districts un-der the "fruit quality enhancement project" in cooperation with Kenya BDS and Fineline.*

Kenya Business Development Services Programme* *http://www.kenyabds.com*	*Tel.: 020-3753318/9* *Fax: 020-3753320* *info@kenyabds.com* *P.O. Box 1327- 00606* *Nairobi*	*Kenya BDS is funded by USAID*
Fineline Systems and Management Ltd.* *Naomi Mungai, Project Coordiantor* *fsm@finelinesm.com*		*Provides external support services to farmer groups in the EAGA/KBDS project.*
Potatoes		
Contact person for **Kipsiwon S.H.G.**, DA office Bomet: Paul Kethel: 0734-803501 Stanley Kirui: 0724-822630 (crop officer)		Kipsiwon S.H.G. is planning to supply Deepa Industries
Contact person for **Kipkebe S.H.G.**, DA office Silibwet, Bomet: Juliana Bett : 0723-848120		Kipkebe S.H.G. has supplied Deepa Industries already 3 times
Contact person for **Naramatishu S.H.G.**, DA office Olokurto, Narok District: Mr. Njoroge: 0735-939525 Wilson Bii: 0720-672851, 050-22204 (District Crops Officer)		Naramatishu S.H.G. has experience with Njoro Canners and Steers
Peter Kinyae, KARI Tigoni Crops officer	0735-458481 0723-985552 petermkinyae@yahoo.com	Is trying to link farmers to Agribusiness companies
Deepa Industries Limited* *Bernard Oduor*	*P.O. Box 44804 Nairobi* *0734-659350*	*sourcing potatoes from farmers in Bomet*
Contact person for **Kibirichia Potato Bacterial Wilt Management S.H.G.** (P.O Box 175) and **Kimbo Farmers Field School** (S.H.G.) DA office Kibirichia, Meru North: Kimaita Isaac Mugambi: 064-41124		Farmers do not yet have CF experience but are interested.
Poultry		
Paul Njue Small-Medium scale farmer (Retired secondary teacher)	0722-291517 P.O. Box 40 Runyenjes	Markets slaughtered chicken to Hotels in Embu, without contract
Kim's Poultry Care Centre Patrick Mbugua Deputy Director	0735-586242 Nakuru, behind Giddo Plaza	Deals with small, medium and larger scale farmers, sells to Nairobi supermarkets
David N. Mbai Larger scale paltry farmer Attended CF conference in Entebbe	0722-830633 0733-731599 020-780334 P.O. Box 1402 Machakos	Had chicken for Kenchic in the 90s but stopped since profit was too little.
Kenchic* *Susan Ndegwa* *Broiler Manager*	*020-558102/09* *020-350809* *kenchic@swiftkenya.com*	
Steers*		
Wimpy Fresh Foods Kenya Limited* *020-4446476 / 553569 / 220494 / 249421e*		

Appendix 5: Selected Literature - Contract Farming in Developing Countries[15]

Title	Authors/Institutions	Where published?	Year	Pages
Linking farmers to markets - An operational manual	*FAIDA Mali - Faida Market Link Company Limited, Arusha, Tanzania*	*http://www.faida.or.tz/*	*Forthcoming*	
The importance of contract farming and its prospects for contributing to poverty reduction in Africa	Cosmas Milton Obote Ochieng	Keynote Paper of Conference in Uganda	2005	36
Why do small-scale producers choose to produce under contract? Lessons from nontraditional vegetable exports from Zimbabwe	Oliver Masakure, University of Reading, UK Spencer Henson, University of Guelph, Canada	World Development 33 (10)	2005	1721-1733
An analysis of contract farming in East Java, Bali, and Lombok, Indonesia	Phil Simmons Paul Winters Ian Patrick	Agricultural Economics No. 33	2005	513-525
Transformation of markets for agricultural output in developing countries since 1950: How has thinking changed?	Thomas Reardon C. Peter Timmer	Chapter 13 in Handbook of Agricultural Economics	2005	77
Some experiences from Malawi in contract farming – tobacco and sugar cases	Ian Kumwenda Daniel Njiwa	Handout from conference in Uganda	2005	6
The potential of contract farming to expand small-scale production in South Africa, Malawi and Zambia: A Farnpan report to determine the way forward	Kurt Sartorius Johann Kirsten	Report prepared for FARNPAN	2005	26
Risk takers, risk makers: Small farmers and non-traditional agro-exports in Kenya and Costa Rica	Mannon, Susan E. Utah State University	Human Organisation	2005	17
The future of smallholder Agriculture in Eastern Africa – The roles of states, markets and civil society	Steven Were Omano, IFPRI	Summary of IFPRI conference http://www.ifpri.org/	2005	7

[15] The sources written in regular fond are available in the PSDA office, either as hard copy or electronically. Sources written in *italics* are not available at PSDA.

Title	Authors/Institutions	Where published?	Year	Pages
Linking small-scale farmers to markets: A multi-level analysis with special references to Malawi, Kenya and South Africa (PhD)	Stefan Canz University of Hohenheim, Germany		2005	
Strengthening farm-agribusiness linkages in Africa – Proceedings of expert consultation Nairobi 2003	Alexandra Rottger (ed.) Case studies: Kenya, Uganda, Ghana, Nigeria and South Africa	FAO AGSF Working Paper 5	2004	68
Contract farming in Indonesia: Smallholders and agribusiness working together	Ian Patrick University of New England, Australia	Australian Centre for International Agricultural Research	2004	82
Trickle-down, trickle-up or puddle? Participatory value chain analysis for pro-poor enterprise development	Mayoux, L.	Wise Development	2003	30
A gendered value chain approach to codes of conduct in African horticulture	*Barrientos, Stephanie* *Catherine Dolan* *Anne Tallontire*	*World Development 31 (9)*	*2003*	*1511-1526*
Overview of smallholder contract farming in developing countries	*Simmons, P.*	*University of New England, Australia*	*2003*	*Book*
Food quality and safety standards as required by EU law and the private industry	Margret Will	GTZ Publication (+ CD with further 25 documents on the topic)	2003	134
Value Chains for Development Policy	Andreas Stamm	GTZ Publication Concept Paper	2003	45
The social performance and distributional conesquences of contract farming: An equilibrium analysis of the Arachide de Bouche program in Senegal	Matthew Warning University of Puget Sound, USA Nigel Key USDA, Washington	World Development 30 (2)	2002	255-263
Contracting out solutions: Political economy of contract farming in the Indian Punjab	*Singh, Skhpal*	*World Development 30 (9)*	*2002*	*1621-1638*
Can small-scale farmers be linked to agribusiness? The timber experience	*Sartorius, K.* *Kirsten, J.K.*	*Agrekon 41 (4)*	*2002*	*295-325*

Title	Authors/Institutions	Where published?	Year	Pages
Equitable partnerships between corporate and smallholder partners	FAO/ CIFOR	http://www.fao.org/documents/show_cdr.asp?url_file=//docrep/005/y4803e/y4803e00.htm	2002	
Contract farming – Partnership for growth	Charles Eaton Andrew W. Shepherd	FAO Agricultural Services Bulletin 145 http://www.fao.org/ag/ags/subjects/en/agmarket/contractfarming.html	2001	182
Negotiating contract farming in the Dominican Republic	Raynolds, Laura T.	Human Organisation 59 (4)	2000	441-451
Theory and practice of contract farming: a review	*Sinhg, S.*	*Journal of Social-Economic Development 3 (2)*	*2000*	*255-263*
The impact of contract farming on income distribution: Theory and evidence	Matthew Warning Wendy Soo Hoo	Paper for Western Economics Association International Annual Meeting	2000	26
Equity and efficiency in contract farming schemes: The experience of agricultural tree crops	Pari Baumann	Overseas Development Institute, UK http://www.odi.org.uk	2000	48
Contract farming, smallholder, and rural development in Latin America: The organisation of agro-processing firms and the scale of outgrower production	Nigel Key David Runsten Stanford University, USA	World Development 27 (2)	1999	381-401
Marrying farmer co-operation and contract farming for service provision in a liberalizing Sub-Saharan Africa	Jonathan Coulter Andrew Goodland Anne Tallontire Rachel Stringfellow	http://www.odi.org.uk/nrp/48.html	1999	10
Trust and supply chain relationships: A South African case study	*Tregurtha, N.L. Vink, N.*	*Agrekon 38 (4)*	*1999*	*755-765*
Agroindustry and contract farmers in Upland West Java	*White, Ben*	*Journal of Peasant Studies 24 (3)*	*1997*	*100-136*
Comparing contracts: An evaluation of contract farming in Africa	*Gina Porter Kevin Phillips-Howard*	*World Development 25 (2)*	*1997*	*227-238*
Code of Conduct	Horticultural Crops Development Authority, Kenya	Own publication	1997	27

Title	Authors/Institutions	Where published?	Year	Pages
An investigation of the organisational features, commodities and situations associated with contract farming and outgrower schemes in Sub-Saharan Africa and the factors which are critical to their successful operation	Stringfellow, Rachel	NRI Research Report, Natural Resource Institute http://www.nri.org/	1996	44
Smallholder outgrower schemes in Zambia	*Springfellow, Rachel*	*Research Report Crops Post-Harvest Programme, Overseas Development Administration of the United Kingdom, No. AO 436, Natural Resources Institute, London*	*1996*	
Farmers, labourers, and the company: Exploring relationships on a Transkei contract farming scheme	*Gina Porter Kevin Phillips-Howard*	*Journal of Development Studies 32 (1)*	*1995*	*55-73*
Contract farming and environmental risks: The case study of Cyprus	*Morvaridi, Behrooz*	*Journal of Peasant Studies 23 (1)*	*1995*	*30-45*
Contract farming and commercialization of agriculture in developing countries	David Glover	In Von Braun, J. and E. Kennedy (eds.): Agricultural commercialization, economic development and nutrition	1994	10
Little, P.D. and M. Watts (eds.) → Summary of different articles	*Contract farming and Agrarian Transformation in Sub-Saharan Africa*	*Madison, Wisconsin, US: University of Wisconsin Press*	*1994*	*Book*
Contract farming in Africa: An application of the New Institutional Economics	*Grosh, B.*	*Journal of African Economics Vol. 3*	*1994*	
Peasants, grapes and corporations: The growth of contract farming in a Chilean community	*Korovkin, Tanya*	*Journal of Peasant Studies 19 (2)*	*1992*	*228-254*
Contract farming in Southeast Asia: Three country case studies	*Glover, David Ghee T.*	*Kuala Lumpur: University of Malaysia*	*1992*	*Book*

Title	Authors/Institutions	Where published?	Year	Pages
The Political Economy of contract farming	*Wilson, A.*	*Rev. Radical Political Economy 18 (4)*	*1990*	*47-70*
Small farmers, big business – Contract farming and rural development	*Glover, David* *Ken Kusterer*	*London: MacMillan*	*1990*	*Book*
Contract farming and out-grower schemes in East and Southern Africa	*Glover, D.*	*Journal of Agricultural Economics 41 (3)*	*1990*	*303-315*
Special Issue	*David Glover and Ayako A.B. (eds.)*	*Eastern Africa Economic Review*	*1989*	
Agribusiness and the small-scale farmer – a dynamic partnership for development	*Williams, Simon* *Ruth Karen*	*Boulder: Westview Press* *ISBN: 0-8133-0146-7*	*1985*	*Book*
Contracts, markets, and prices: Organizing the production and use of agricultural commodities	Economic research service, United States Department of Agriculture (USDA)	http://www.ers.usda.gov/	2004	81
Standards				
Private agri-food standards: Implications for food policy and the agri-food system	Spencer Henson Thomas Reardon	Food Policy, 30 (2005)	2005	13
Private food safety and quality standards for fresh produce exporters: The case of Hortico Agrisystems, Zimbabwe	Spencer Henson Oliver Masakure David Boslie	Food Policy, 30 (2005)	2005	14

Source: Own compilation.

Appendix 6: Selected Literature – Contract Farming in Kenya[16]

Title	Authors/Institutions	Where published?	Year	Pages
The importance of contract farming and its prospects for contributing to poverty reduction in Africa	Cosmas Milton Obote Ochieng	Keynote Paper of Conference in Uganda	2005	36
The Political Economy of contract farming in Kenya, 1963-2002 (PhD)	Cosmas Milton Obote Ochieng	Oxford University	2005	200
Risk takers, risk makers: Small farmers and non-traditional agro-exports in Kenya and Costa Rica	Mannon, Susan E. Utah State University	Human Organisation	2005	17
Linking small-scale farmers to markets: A multi-level analysis with special references to Malawi, Kenya and South Africa (PhD)	Stefan Canz University of Hohenheim, Germany		2005	
The future of smallholder Agriculture in Eastern Africa – The roles of states, markets and civil society	Steven Were Omano, IFPRI	Summary of IFPRI conference http://www.ifpri.org/	2005	7
Strengthening Farm-Agribusiness linkages in Africa – Proceedings of Expert consultation Nairobi 2003	Alexandra Rottger (ed.) Case studies: Kenya, Uganda, Ghana, Nigeria and South Africa	FAO AGSF Working Paper 5	2004	68
Strengthening farm-agribusiness linkages	Alexandra Rottger Pilar Santacoloma	FAO - AGSF Occasional Paper	2003	51
Production and productivity effects of informal contract farming in Kenya's smallholder horticultural sub-sector	*GA Obare and IM Kariuki Egerton University*	*Eastern Africa Journal of Rural Development 19 (1)*	*2003*	*13-24*
Linking ware potato growers with processors of french-fries in Nakuru district, Kenya	*Kabira, J.*	*Kenya Agricultural Research Institute, KARI http://www.kari.org*	*2002*	
Farm-Agribusiness linkages in Kenya	Tom R. Wambua	FAO Case study consultancy report	April 2002	39

[16] In this Annex, you may find some literature, which was also listed in annex 4, but this was done with attention. Thus, readers particularly interested in references important for Kenya can get a quick overview.

Title	Authors/Institutions	Where published?	Year	Pages
Contract farming – Partnership for growth	Charles Eaton Andrew W. Shepherd	FAO Agricultural Services Bulletin 145 http://www.fao.org/ag/ags/subjects/en/agmarket/contractfarming.html	2001	182
Marketing of smallholder produce: A synthesis of case studies in the highlands central Kenya	*Stachys N. Muturi (ed.)*	*Relma at ICRAF, Kenya*	*2001*	
The Meru bean war: Cash crops worse for women	Ayicko, Francis	Panos Features	2001	2
The impact of contract farming on income distribution: Theory and evidence	Matthew Warning Wendy Soo Hoo	Paper for Western Economics Association International Annual Meeting	2000	26
Equity and efficiency in contract farming schemes: The experience of agricultural tree crops	Pari Baumann	Overseas Development Institute, UK http://www.odi.org.uk	2000	48
Comparing contracts: An evaluation of contract farming in Africa	*Gina Porter Kevin Phillips-Howard*	*World Development 25 (2)*	*1997*	*227-238*
Code of Conduct	Horticultural Crops Development Authority, Kenya	Own publication www.hcda.or.ke	1997	27
An investigation of the organisational features, commodities and situations associated with contract farming and outgrower schemes in Sub-Saharan Africa and the factors which are critical to their successful operation	Stringfellow, R.	NRI Research Report, Natural Resource Institute http://www.nri.org/	1996	44
Little, P.D. and M. Watts (eds.) → Summary of different articles	*Contract farming and Agrarian Transformation in Sub-Saharan Africa*	*Madison, Wisconsin, US: University of Wisconsin Press*	*1994*	*Book*
Contract farming and outgrower schemes in East and Southern Africa	*Glover, D.*	*Journal of Agricultural Economics 41(3)*	*1990*	*303-315*
Special Issue	*David Glover and Ayako A.B. (eds.)*	*Eastern Africa Economic Review*	*1989*	
Horticultural Marketing Channels in Kenya (PhD)	*Tjalling Dijkstra Wageningen University*	*???*	*???*	

Source: Own compilation.

Appendix 7: Selected Literature – Contract Farming related Agribusiness in Kenya

Title	Authors/Institutions	Where published?	Year	Pages
Fresh fruit and vegetable consumption patterns and supply chain systems in urban Kenya: Implications for policy and investment priorities	Ayieko M.W. Mathenge M.W. Tschirley D.L.	Tegemeo Institute Working paper for review www.tegemeo.org/	2005	52
Improving Kenya's domestic horticultural production and marketing system: Current competitiveness, forces of change and challenges for the future: **Horticultural Production**	Kavoi Mutuku Muendo David Tschirley	Tegemeo Institute Working paper for review	2004	50
Improving Kenya's domestic horticultural production and marketing system: Current competitiveness, forces of change and challenges for the future: **Horticultural Marketing**	Kavoi Mutuku Muendo David Tschirley Micheal T. Weber	Tegemeo Institute Working paper for review	2004	58
Improving Kenya's domestic horticultural production and marketing system: Current competitiveness, forces of change and challenges for the future: **Horticultural Research and input sector regulation in Kenya and Tanzania**	Kavoi Mutuku Muendo David Tschirley	Tegemeo Institute Working paper for review	2004	31
The rise of Kenyan supermarkets and evolution of their horticulture procurement systems: Implications for agricultural diversification and smallholder access programs	David Neven Thomas Reardon Michigan State University	Development Policy Review 22 (6)	2004	54
Are Kenya's horticultural exports a replicable success story?	Nicholas Minot – IFPRI Margaret Ngigi – Egerton University	IFPRI Focus 12, Brief 7 of 10 www.ifpri.org/2020/focus/focus12/focus12_07.pdf	2004	2

Title	Authors/Institutions	Where published?	Year	Pages
Are horticultural exports a replicable success story? Evidence from Kenya and Cote D'Ivoire	Nicholas Minot – IFPRI Margaret Ngigi – Egerton University	IFPRI www.ifpri.org/events/conferences/ 2003/120103/papers/paper7.pdf	2004	113
The Rise of supermarkets in Africa: Implications for Agrifood Systems and the rural poor	Dave D. Waterspoon Thomas Reardon Michigan State University	Development Policy Review 21 (3)	2003	17
Agricultural marketing companies as sources of smallholder credit in Eastern and Southern Africa	IFAD	http://www.ifad.org/ruralfinance/policy/pf.pdf	2003	113
Export chain of French beans from Kenya	Tineke voor den Daag Wageningen University	www.rlc.fao.org/prior/segalim/ prodalim/prodveg/bpa/estudios/68.pdf	2003	181
Export horticulture and poverty in Kenya	Neil McCulloch Masako Ota	IDS Sussex working paper	2002	40
Sector study of horticultural export sector in Kenya		USAID	2001	63
Gender and employment in the Kenya horticulture value chain	Catherine S. Dolan Kirsty Sutherland	Globalization and poverty discussion paper 8		43
The socio-economic and ecological impacts of the agro-industrial food chain on the rural economy in Kenya	*Opondo, Nary Magdalene*	*Ambio – A Journal of Human Environment 29(1)* *www.ambio.kva.se*	*2000*	*35-41*

Source: Own compilation.

Appendix 8: HCDA: Code of Conduct for Fresh Horticultural Produce Sales

The Code of Conduct is an agreement between the "Buyer" of fresh horticultural produce and the "Seller" or grower of the produce. The Code of Conduct should act as a memorandum of understanding and as guideline for the buyer and the seller in order to conduct good business practices which will be mutually beneficial and help promote the well being of the horticultural industry in Kenya. Furthermore, it acts as a framework to the development of a legally binding contract to be executed by the buyer and the seller.

<u>Obligations</u>

Seller's Obligations
Farmers should be organized into well-managed groups and be registered with the Ministry of Culture and Social Services or any other authority. Specific outgrower groups should relate to specific buyers under a contract. Farmers should request for training on any aspect that deals with quality control as need arises.

Buyer's Obligations
Specific exporters/processors should relate to specific outgrower groups under a contract and provide reasonable extension services. The buyers should relate directly to their outgrowers and respect other companies and not try areas where other exporters/processors have developed schemes. Exporters/processors/others should endeavour to establish means and ways of financing their groups and also try and encourage groups' self-financing.

Dual Obligations
- Both parties should be loyal to each other in the spirit and terms of the contract.
- Both parties should have mutual co-existence.
- Both parties should be involved when drawing up contracts.
- Both parties should have knowledge of the effective use of pesticides.

MOA, HCDA & Other NGO's Obligations
- MOA as a witness will ensure that all parties abide to the contract regulations and provide sufficient support to both parties.
- HCDA as a witness will monitor the activities of both parties under the Legal Notice Number 231 cited as then HCDA (Export) Order 1995.
- Other NGOs working directly or indirectly with horticultural farmers will collaborate with MOA, HCDA, and the local administration in guiding both sellers and buyers.

<u>CONTRACT GUIDELINE</u>
Exporters and outgrower groups shall engage in the execution of a contract before conducting business. A contract must include specific terms and conditions of payment, responsibilities for production, handling and collection of produce, and any other essential elements, which will create a clear understanding of obligations of both the buyer and the seller.

ESSENTIAL ELEMENTS OF THE CONTRACT SHOULD INCLUDE

1. Quantity and quality of produce to be supplied
The contract should specify the quantity in either boxes/cartons /crates or kilos over a period of time, supplied from a certain production area. A schedule of prices shall be identified for differentials in quality. Contract shall specify a minimum quantity of produce to be provided by seller (i.e. quantity below which no collection will be effected). Seller and buyer agree to produce and market high quality levels of produce and further specify levels of quality for produce that must be delivered by groups. (The KBS standards, NRI manual for horticultural export quality assurance, and any other requirement by specific importers should be used as referral guidelines for acceptable quality levels.)

2. Seed and other Inputs

Buyer and seller agree upon who is responsible for supplying high quality certified seeds/planting materials to the grower. If buyer requires the use of certified seeds/planting materials by the seller, it must be specified in the contract. Contract must address which party will be responsible for supplying and applying other inputs such as fertilizer and pesticides. Terms and conditions for purchase, sale of inputs must be included within the contract. Individual growers, groups, organisations and/or their members will be responsible to cover all obligations to buyers who supply inputs.

3. Generally Accepted Production Practices

Sellers shall agree to undertake production practices and procedures, which are necessary, and conducive to producing highest quality produce whether for fresh export markets, processed markets (canned, frozen, etc.) or local markets. Such practices include use of approved pesticides, proper application of pesticides according to the labels of the manufacturers, and the use and proper application of fertilizers which are recommended for the type of produce to be grown. Where applicable, buyers and sellers agree to co-operate in random testing of produce for the purpose of detection of pesticide residues.

4. Record Keeping

In order to ensure product safety, highest quality levels, full traceability and accountability, buyer and seller shall agree on a complete record keeping system for production and handling of produce. Minimum requirements for record keeping should include:

- Identification of previous crop
- Type of seed used, treatment of seed
- Date of planting
- Herbicide applications: date and rate
- Pesticide applications: product, date, rate, and weather conditions
- Irrigation: dates and quantities
- Harvesting: dates and weather conditions

5. Field Support and Training

Sellers should be provided with sufficient training on group administration, proper production, handling and grading techniques on a periodic basis. Where appropriate, the buyer shall work in conjunction with MOA, KARI, HCDA, and any other relevant agencies, in order to ensure achievement of highest quality levels and contract performance.

6. Harvesting and post-Harvest Practices

Seller should agree to undertake acceptable management practices for harvesting and handling of produce, which will ensure high quality levels. Use of clean (plastic) containers, protection of produce from heat and direct sunlight, maintenance of hygienic conditions, use of clean water for washing of produce, are among practices to be followed.

7. Inspection and Grading

Buyer and seller shall agree and specify responsibilities for inspection and grading of produce; when and where these activities will occur (e.g. upon collection); type of documents to be executed upon collection/ delivery; determination of when title and responsibility of goods pass from the seller to the buyer.

8. Packaging Supply and Procedures

Contract should specify which party is obligated to supply packaging materials and the acceptable conditions of the package on collection. Packing procedures such as condition and quantity of produce, grade and type of produce, placement and orientation within a container, should also be made clear.

9. Conditions of collection and/or delivery
The contract should indicate specific collection periods of produce (time and year); conditions should be specified for events of non-collection. If buyer fails to collect at specified time, he will be obligated to purchase produce. However, seller should be obligated to hold produce for maximum period (i.e. 24 hours) beyond the collection deadline at the expense of the buyer. This will enable the buyer to salvage any marketable produce and prevent extra-contractual marketing. In case of shortages and excesses in production under a quantity contract buyer and seller should agree upon a tolerance level (+/- 10%) that is acceptable to both parties.

10. Middlemen and Other Intermediaries
Both parties agree not to engage in any transactions with any other individuals or intermediaries which involve the produce under contract.

11. Multiple Contracts
Multiple contracts are discouraged with more than one processor/ exporter. However, in the event a grower or group is contracted with more than one exporter/processor as signatories to this Code, growers and exporters/processors agree to refrain from unscrupulous business practices, which could disadvantage any of the parties.

12. Rejected Produce
Point of rejection of produce should be agreed upon in the contract. If the buyer rejects the produce, conditions for the return of the produce to the seller should be specified in the contract. Any agreeable means of disposal should be specified. However, produce for which a delivery has been accepted by the buyer cannot be returned to the growers.

13. Payment Terms and Mechanism
Contracting parties agree to establish payment terms, which are acceptable to buyer and seller, and to establish a mechanism of payment to sellers which will allow for safe and timely transfer of funds.

14. Penalties
This should be specified in the contract .e.g. compensation should be applied to either party as a result of failure to abide with the laid down regulations of the contract.

15. Duration of Contract
Duration and maturity of contract should be specified by indicating number of months from contract execution or a specific time interval.

16. Termination Clause
Conditions for termination must be indicated i.e., a written notice of termination within a reasonable period, which should be equivalent to a full production and marketing cycle of the produce.

17. Natural Calamities and Non-Commercial Risks
In the event of natural calamities (such as floods, hail, earthquakes etc.) and non-commercial risks (such as war, insurrection, national labour strikes) the affected party(s) should be held harmless for non-performance.

Source: Adapted from HCDA

Appendix 9: HCDA: Sample Contract

AGREEMENT BETWEEN
HORTICULTURAL CROPS DEVELOPMENT AUTHORITY,
HORTICULTURAL FARMERS GROUPS
AND
FRESH HORTICULTURAL PRODUCE BUYERS

Preamble

This agreement is made between HCDA of P.O. Box 42601, Nairobi on one hand

and____ Farmers Group,

hereafter referred as the Group of P. O. Box _________ ______________________ and

____ of P. O. Box

_____________________________________ hereafter referred as the Buyer.

Whereas HCDA has installed horticultural produce handling facilities and has the technical capacity to supervise production and handling process and whereas the aforementioned Group and Buyer wish to utilize these handling, production and other marketing arrangements established by HCDA, it is hereby agreed as follows:

1. Definition

- HCDA means Horticultural Crops Development Authority or any other person authorized to act on its behalf.
- Farmer's Group means organized small-scale farmers or an individual acceptable to HCDA intending to use HCDA handling facilities for transporting and marketing horticultural produce to identified buyer(s).
- Buyer means a registered company in fresh horticultural produce business also wishing to use HCDA organized production groups and facilities in the production and marketing processes.

2. Obligations of the Group

2.1 Collection Point

The Group agrees to construct a collection point from where all produce will be picked as per HCDA specifications. Maintenance of the centre to stipulated standards of hygiene will be the responsibility of the group.

2.2 Produce Acceptance/Registration Point

Produce acceptance/rejection point will be undertaken at the collection centre and final documentation at the Depot.

2.3 Organisation of Members/Produce Sales

The Group agrees to organize its members to produce and deliver indicated produce on a timely basis to the collection point as required by buyer and as scheduled on this agreement.

2.4 Multi-contracts

The Group agrees not to enter into any other marketing arrangements with another buyer/exporter and will offer for sale all produce raised to the contracted buyer.

2.5 Produce Type, Quality & Price

The farmers' Group agrees to plant horticultural crops during the period ____________________________________ and deliver the resulting produce as specified below:

Produce	Variety/Grade	Delivery Day	Quantity Per Delivery	Price/Kg

Attached is the weekly delivery schedule for the contract period.

2.6 Produce Quality & Grading

The Group will assign a grader to be trained by HCDA on pre-grading techniques and who will be responsible for quality control of delivered produce as well as maintaining the premises of the collection point under sound sanitary conditions. In addition the clerk/grader will ensure that people handling horticultural produce maintain proper standards of hygiene. The produce grades shall be those required by buyer and conform to international market requirements.

2.7 Crop Production Practices

The Group agrees to follow practices and procedures necessary and conducive to production of high quality produce for the export market and buyer requirements with specific reference to seed and agrochemical inputs, production practices and record keeping. The format of records to be kept is as attached in the appendix.

The production procedures should conform to GOOD AGRICULTURAL PRACTICE (GAP) as required by various codes and regulations e.g., Kenya Standard Code of Practice for the horticulture industry, EUREPGAP, etc.

2.8 Individual Farmers Delivery Records

- The Group agrees to document group and individual farmers deliveries and maintain suitable records for the purpose of facilitating group and members' payments. Such records will include a delivery slip bearing particulars of name of farmer, Group number (code), date, type of produce and delivered weight as well as individual farmer ledgers.

- Each crate will be labelled for every delivery as guided by HCDA for the purpose of traceability.

2.9 Produce Handling Charge Payment

The Group agrees to pay produce handling charge to HCDA at a rate of 17 % of realised SALE value of the delivered produce and paid for by the buyer.

2.10 Custody of Plastic Crates

The Group agrees to maintain safe custody of plastic crates supplied by HCDA for transporting delivered produce.

In the event of loss of the supplied crates, the Group agrees to compensate HCDA up to the replacement value of each crate lost.

2.11 Produce Collection Schedules

HCDA shall provide produce collection times that will facilitate timely produce delivery to buyer and the group members shall abide by the schedules or be held responsible for any delays/or non-collection.

3. HCDA Obligations

3.1 Farmer/Group Code Number

HCDA agrees to issue a code number to the farmer/Group in order to identify all Groups' produce as well as any transaction between the Group and HCDA.

3.2 Training of Farmers Groups/Group Mobilization

HCDA will mobilise farmers into production groups and provide training support to Group members in the areas of group organisation and management, production technologies, record keeping, produce handling and market requirements.

3.3 Production Planning and Delivery Schedules

HCDA will assist the farmers group to prepare a production plan and delivery schedule with a view to meeting the Buyer's requirements.

3.4 Provision of Inputs

HCDA will assist in making available or advising on alternative sources the required seeds and agrochemicals at the depot to be purchased by the Group members.

3.5 Production Supervision

HCDA agrees to provide an extension worker to supervise production and record-keeping of all production activities in conformity with buyer and market requirements.

3.6 Produce Collection and Transportation

HCDA agrees to provide a vehicle to collect and transport the graded produce from the collection point to the Depot and thereafter to the Nairobi Horticultural Centre for collection by the buyer or direct to buyer whichever is convenient to both parties.

3.7 Record of Group Deliveries at Depot Level and to Buyer

HCDA agrees to keep delivery records showing both Group and individual deliveries for future reconciliation with sales realisation at NHC. The same delivery records will be passed over to buyer for purpose of payment settlements.

3.8 Feed-Back on Deliveries

HCDA agrees to provide information regarding outcome of the deliveries as well as realised payments as agreed in this contract to production group.

3.9 Payment to Farmers

HCDA agrees to remit payments from buyer within 2 weeks of produce delivery to buyer less 17% commission.

4. Buyer Obligations

4.1 Produce Purchased

The buyer agrees to purchase all produce contracted and delivered at the Nairobi Horticultural Centre at prices agreed upon by all parties. The prices shall be subject to the prevailing market trends and selling prices agreed upon shall be reviewed after every planting cycle.

4.2 Quality of the Produce

- The buyer agrees to strictly specify the quality standards of the produce to be delivered from production groups.
- The buyer agrees to appoint a quality inspector to ascertain the quality of the produce and the buyer shall bear the cost of such services.
- The buyer agrees to collect all the delivered produce at the agreed time and dates of the order failure to which compensation will be made at the agreed purchase prices.

4.3 Production Supervision

The buyer agrees to make routine visits to the production units to supervise production and verify crops progress and advice both HCDA and growers as necessary.

4.4 List of Farm Inputs

The buyer shall provide list of recommended seed and agrochemical inputs that confirm to their market needs.

4.5 Provision of Farm Inputs

The buyer is encouraged to advance farmers required inputs to be recovered from produce sales through HCDA.

4.6 Payment of Produce

The buyer agrees to pay for all the produce from the group and delivered to buyer within 7 days of delivery at the agreed prices.

5. Joint Obligation

5.1 Natural Calamities and Non-commercial Risk

In the event of natural calamities (floods, hail, excessive rains, earthquake, etc.) or non-commercial risks (war, insurrection, national labour strikes, etc.) both parties should not be liable for non-performance.

5.2 Contract Period

This contract will be valid for a period of ____________ months from ________________ 2004 to __________________ 2004.

5.3 Termination of Contract and Automatic Continuation

This contract may be terminated by giving three months written notice by either party. In case none of the contract party expressed the intension of termination, the contract period shall be extended automatically for the following production season.

Agreed this _______________________ day of _____________________ 200?.

______________________________ Date: __________________________
On behalf of HCDA

______________________________ Date: __________________________
On behalf of Group

______________________________ Date: __________________________
On behalf of Buyer

Witnesses: ____

____

____

Appendix 10: Closing Communiqué from NEPAD Contract Farming Conference

Contract Farming:

Expanding Agribusiness Links with Smallholder Farmers in Africa

Workshop held at Imperial Resort Beach Hotel. Entebbe Uganda, 21st -25th November 2005

Communiqué

Noting that agriculture remains the engine of growth in most African economies - accounting for more than 35 percent of African GDP, 40 percent of exports and 75 percent of employment;

Considering the declaration by African Heads of State and Government in 2003 in Maputo, Mozambique endorsing the Comprehensive African Agricultural Development Program (CAADP) as a framework for restoration of agricultural growth, food security and rural development in Africa;

Recognising the role Contract Farming plays in increasing agricultural growth, productivity, food security, employment and rural livelihoods, and following the progress made in developing and promoting Contract Faming in Africa;

Appreciating that the New Partnership for Africa's Development (NEPAD), the Government of Uganda, ICRAF, Sida and development partners, organised a workshop to understand the contributions and potential pitfalls of contract farming to agricultural growth, income generation and modernization of agriculture with a view to charting the way to more successful, efficient and equitable contract farming schemes in Africa;

With key representations from selected COMESA and SADC member countries, development partners, NGOS, Farmers and business community.

The workshop identified factors associated with successes that include:

- Appropriate legal, policy and institutional frameworks including workable and enforceable contract mechanisms;
- Equitable distribution of risks and benefits between farmers and agribusiness firms;
- Effective and efficient farmers organisations;
- Favourable market conditions including better market access and information issues;
- Better infrastructure and more responsive and effective research, technology and extension systems

In the light of the above, there is an urgent need for:

- Clear policies and legal frameworks to facilitate efficient and equitable contract farming in Africa.
- Harmonisation of national and regional pieces of legislation and institutions relevant to Contract Farming;

- Improved infrastructural services including roads, irrigation , research, science and technology and capacity development;

Participants recommended the following:

- National governments need to accelerate the implementation of the agenda for further improvement of the environment for the private sector development taking into account the specific need for contract farming
- Institutions at regional and Pan-African level should increase the efforts to reduce or eliminate formal and informal trade barriers;
- Formation of multi-stakeholder-based country task forces on contract farming to kick start the harmonisation process.
- Align national and regional infrastructural planning with the infrastructural demands of contract farming
- Urged national governments, RECs and development partners to facilitate the provision of infrastructural services in contract farming areas in Africa.
- The need for enhanced partnerships, networks and linkages between various players, most notably, private, public and civil society sectors, farmer organizations, institutions of higher learning and national extension systems as a mechanism for addressing the multi-dimensional capacity constraints facing contract farming;
- Strengthen the capacity of farmers organisations in leadership and business skills;
- Monitor and assess impacts of contract farming on poverty reduction, competitiveness of agriculture and equity;
- Strengthen market information at national, REC and continental level.