Policy Brief

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Avocado contract farming in Kenya: Does it work?

NWO/WOTRO project Productive Employment in the Segmented Markets of Fresh Produce, 2014-17

Key messages

- Contract farming is the best option for Kenya to transform its avocado sector with exporters and many smallholder avocado farmers benefitting.
- Contract farmers benefit from higher prices, more training, and GAP certification.
- But widespread side-selling and a lack of loyalty and trust threatens contract sustainability.
- Policies are needed to increase investment in training and trust, innovate contract design and discourage side-selling and side-buying.

Background

Avocado demand continues to grow locally and globally. Kenya's export supply is also growing but progress is slow. The international boom in demand coincides with changes to the structure of the international fresh produce market reflecting a move from the "non-programmed world" to the "programmed world". The main challenge for Kenya's avocado sector is how to transform to a programmed world in a way that benefits Kenyan exporters and smallholder farmers.

Contract farming, where farmers commit to producing avocados in a given manner and buyers commit to purchasing the product, may be a good option for Kenya. However, many contracting schemes have failed in the past.

A four-year research project on Productive Employment in the Segmented Markets of fresh produce (PRESM), funded by NWO/WOTRO, aimed to investigate:

- The benefits and costs for smallholder avocado farmers engaging in contract farming
- Whether contract farming creates long-term relationship between farmers and buyers
- How large-scale training, certification and contracting interventions affect farmers
- What can be learnt from the recent export success of Peru in the avocado market (see Policy Brief 179)

Non-programmed world:

In traditional value chains, (small) growers use non-certified production methods, sell through brokers into wholesale markets, and their products cannot be traced in the production chain.

Programmed world:

In modern value chains, farmers are directly linked to exporters through contractual relationships. They produce according to (certified) global good agricultural practices (GAP) and their products can be traced back to the producer.

The analysis

The project used a mixed-methods approach, including background review and interviews with stakeholders, structured surveys among avocado farmers (with and without contracts), farmer organizations, exporters, avocado plantation workers, and focus group discussions with semi-structured instruments of avocado farmer group leaders and farmers.

The study considered the costs of transport, harvesting, farmer organization, documentation and contract breaches, as well as negotiation and uncertainty about sales/price, uncertainty about rejection rate, and payment delays.

The main research sites were sub-locations in Kandara subcounty in Muranga'a county, one of Kenya's main avocado growing areas.

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NWO Netherlands Organisation for Scientific Research

Ministry of Foreign Affairs of the Netherlands

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GRADE Grupo de Análisis para el Desarrollo

aighd

Fresh Produce Exporters Association of Kenya

University of Nairobi

Key findings

Farmers benefit from contracting in terms of price, training and certification.

- While brokers paid on average 3-4 KSh/piece, the contracting buyers paid on average 6-8 KSh/piece.
- 44% of the farmers with a contract had been trained in avocado farming, compared to 7% for non-contract farmers.
- Good agricultural practices (GAP) certification was virtually non-existent for non-contract farmers (1%) but was 19% among contract farmers.

Contract farmers generally face higher transaction costs. Farmers face various transactions costs depending on whether they sell to brokers in the spot market or to the contracting buyer.

- Brokers tend to come to the farm gate, harvest the avocados themselves, collect all the harvested fruits, and pay on the spot.
- If farmers sell under contract, they often have to organize the harvesting, face uncertainty with respect to the rejection rate, organize transport, and face payment delays, among others.

Side-selling is widespread.

- 82% of the farmers reported that side-selling happens within their group without the group's knowledge.
- The main reported reasons for side-selling are lower prices paid than agreed, delayed payments, delayed collection of fruits, and the need to pay labor.
- Farmers were more likely to side-sell if they were food insecure and/or showed less patience. This suggests that side-selling is also related to poverty where farmers may choose to side-sell to receive fast cash when needed. Side-selling was also stronger among farmers who reported less trust in others.

Farmers show little long-term loyalty to contracts.

- More than 2/3 of the farmers who were in contract with one of the major exporters left the contract within 1.5 years. More than half of these farmers chose a contract with another company.
- The most frequently cited reasons for farmers to leave a contract were related to company behavior (delay harvest, change price, did not pay), group mismanagement/collapse, and side-selling.
- Turnover among the contracting companies was also high: 30% of companies that started contracting around the time of our baseline dropped out within six months of the endline (two years later).

Conclusions and implications for policy

Based on the findings of this study, **avocado contract farming is the best way to transform the Kenyan avocado market from a non-programmed to a programmed world.** To make this move successful, policymakers need to made contract farming more attractive to the contracting partners and ensure greater loyalty. The results of this study suggest several policy options to achieve this:

- **Invest in training and trust-building.** Farmers who receive avocado training benefit from improved production techniques resulting in increased sales of high quality avocados. Training also reduces side-selling by the farmers, as high quality produce fetches a quality premium when sold under contract. Training can also help build trust among farmers, reducing side-selling.
- **Innovative contract design.** Innovative contracts are needed to strengthen the incentives and loyalty of smallholder farmers and contracting companies. For example, improved contracting terms could be offered to smallholders who have been loyal sellers in past seasons.
- **Discourage side-selling and side-buying.** Side-selling/buying undermines the sustainability of contract farming as companies who invest in a contracting scheme do not benefit from the sales. As such, incentives should be put in place to make side-buying an unattractive option for companies. Additionally, reducing payment delays will also reduce side-selling behaviour.

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