

Interim findings

Productive employment in segmented markets

The research project 'Productive employment in segmented markets of fresh produce in Kenya' investigates the segmentation of the avocado sector in Kenya by comparing modern and innovatively programmed value chains with more traditional, non-programmed modes of farming. In modern value chains, farmers are directly linked to exporters through contractual relationships, they produce according to (certified) global good agricultural practices (GAPs), and their products can be traced back to the producer. In traditional value chains, farmers use non-certified production methods, sell their outputs to 'brokers' or middlemen, and their products cannot be traced in the production chain. The aim of this project is to study alternative approaches to modernizing the avocado sector in Kenya and the effects of these approaches on small-scale avocado growers in terms of productive employment. The study surveyed 790 households and farmers' groups in Murang'a County in central Kenya, including farmers who already had a contract with an exporter during the 2015 season, farmers who had signed a contract with an exporter for the 2016 season and farmers who had not signed a contract. A qualitative survey was carried out in March 2017 to investigate whether and how avocado contract farming is or can become a successful model of structural transformation in the avocado sector in Kenya. An end line survey is scheduled to take place in June/July 2017.

The following are the interim findings and policy messages.

Interim findings

- Various factors influence the participation of smallholder farmers in the modern avocado value chain. These factors include an awareness of and access to reliable information about the farmer groups linked to exporters possibly through avocado groups, and the number of trees and agricultural assets a farmer owns. Market assurance from the export companies may also increase a farmer's ability and willingness to invest in technical innovation and thereby increase farm productivity.
- Farmers that grow avocado for the modern sector – which makes use of contracts and modern supply chains – employ substantially more hired labour per unit of production in comparison with farmers that sell to the traditional chains. Per tree, farmers spend about 139 Kenyan shillings (1.2 euro) more on hired labour per year, which translates into an increase of 400 percent in hired labour for avocado production. An average smallholder farmer in our study owns about 8.8 trees, so an additional farmer in contract farming would increase hired labour by 1205 shillings. However, while still significant, these effects are not of a magnitude that one can expect large general equilibrium effects on the labour market. Avocado production is not labour intensive. A simple calculation suggests that that these estimates indicate that if all production switched to the modern sector, around 400 jobs would be created¹.
- While contract farming has the potential to integrate smallholder farmers in national and global value chains, and successful schemes do tend to benefit these farmers in terms of higher and more stable incomes, a major issue remains how these schemes can be scaled up. One of the most common challenges facing contract farming schemes is side-selling, which risks the profitability and thereby sustainability of the schemes. We find that side-selling is indeed common among contract farmers, and typically dichotomous – either a farmer sells

¹ Our estimates suggest that avocado production in 2013 was about 20,000 metric tonnes. The average farmer in our survey produced 5,099 pieces of the Hass variety, which is about 1000 kilograms. The total amount spent on hired labour nationwide, if all switched, would thus be about $(20,000,000/1000) * 1200 = 24,000,000$ KES. Taking 300 KES as a daily wage and 200 working days in a year, this would be equivalent to 400 jobs.

the whole output (of avocados of a given quality level) to the company or to a middleman. It was also found that side-selling is strongly linked to the price incentives offered, but equally, to the confidence in the sustainability of the scheme. The option of side-selling is costly to farmers, as they receive lower prices.

Policy messages

- **Provide access to farm technology and market information:** Access to farm technology and market information may increase awareness and reduce uncertainty about the expected outcomes of participation.
- **Support knowledge-building in agronomy:** There is need for government support in building farmers knowledge and capabilities in agronomy related to avocado production. This can be done through active and interactive farmer-extension services focusing on new technologies, production techniques and market information.
- **Improve household welfare and agricultural assets:** Complementary interventions that improve household welfare and also boost agricultural assets would enable farmers to hire labour and also to participate in the modern value chain.
- **Mobilize and support agriculture groups:** Mobilization of avocado farmers into contract farming would boost avocado crop productivity and also contribute towards employment generation. Local authorities should encourage and provide support to existing agricultural groups and encourage the formation of new groups as they serve as important medium of social capital.
- **Maintain strong price incentives and increase confidence:** Findings on side-selling suggest that for contract farming to remain a successful model of structural transformation in the avocado sector in Kenya, it is necessary to maintain strong price incentives and to find ways of enhancing farmers' confidence in the sustainability of the scheme.

Knowledge products

- Shiferaw, B (2014) *Productive employment in the segmented markets of fresh produce*. Kick-off workshop report, <http://includeplatform.net/downloads/report-kick-meeting-productive-employment-segmented-markets-fresh-produce/>
- Oostendorp, R (2016) *Productive employment in segmented markets of fresh produce (PRESM) - Avocado interim findings*, <https://www.nwo.nl/en/research-and-results/research-projects/i/01/12201.html>
- Fort, R (2016) *Productive employment in the segmented markets of fresh produce Peru comparative case study*, <https://www.nwo.nl/en/research-and-results/research-projects/i/01/12201.html>
- Amare, M (2016) *Supply chain of fresh produce in developing countries: Patterns of production and marketing of avocado using macro and household data from Kenya*, <https://www.nwo.nl/en/research-and-results/research-projects/i/01/12201.html>
- Kabubo-Mariara, J (2016) *Productive employment in segmented markets of fresh produce (PRESM) key findings*, <https://www.nwo.nl/en/research-and-results/research-projects/i/01/12201.html>
- Amare, M (2016) *Structural transformation and emergence of global fresh produce value chains: Case of avocado sector in Kenya*, <https://www.nwo.nl/en/research-and-results/research-projects/i/01/12201.html>
- Kabubo-Mariara, J (2016) *Report on the productive employment in the segmented markets of fresh produce*, <https://www.nwo.nl/en/research-and-results/research-projects/i/01/12201.html>

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<http://includeplatform.net/research-group/productive-employment-in-the-segmented-markets-of-fresh-produce/>