

**THE FIELD SUPPORT PROGRAM**  
**LEARNING ON OUTGROWING INITIATIVE**

**A CASE STUDY**  
**ON**  
**EAST AFRICA GROWERS**  
**VEGETABLE EXPORTS FROM KENYA**

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## Abbreviations

AM	Area Managers
EAGA	East African Growers Group
GOK	Government of Kenya
Ha	Hectares
MRL	Maximum residue levels
MT	Metric ton
SHG	Self Help Groups
TA	Technical Assistants
United Kingdom	UK

## 1. Introduction

The following describes the East African Growers Group (EAGA) and its outgrowing operations. This case-study looks first at the overall market and operations of EAGA and discusses the company's incentives for undertaking outgrowing activities. The case then presents the functioning and dynamics of its outgrowing activities before concluding with a discussion of reasons for EAGA's success and its biggest remaining challenges.

## 2. Description of East African Growers Group (EAGA)

EAGA began exporting fresh vegetables to Europe 20 years ago, taking advantage of opportunities to supply importers with fresh produce outside of Europe's main growing season. Today, EAGA is the largest fresh vegetable exporter in Kenya, exporting roughly 250 metric tons (MT) per week in the high season and close to 100 MT per week in the low season.<sup>14</sup> In addition to vegetables, but not part of this case-study, EAGA also exports fresh tree-crops such as avocados and passion fruit.

The vegetables EAGA exports include French beans, fine beans, broccoli, snow peas, sugar snaps, carrots and baby corn. Outgrowers who currently supply 60% of its exports primarily grow fine beans, snow peas and sugar snaps. The company's own farms supply the remaining crops and volumes.

Close to 90% of exports are sold to European supermarkets, most of them located in the United Kingdom (UK), including Tesco and Marks & Spencer. Of the remainder, most are sold to European wholesalers with smaller amounts going to Gulf-state importers. To satisfy its main UK customers, EAGA must assure compliance with GlobalGap standards and the additional requirements of UK supermarkets, including standards for product traceability, maximum residue levels (MRL) of agro-chemicals, packaging and product size and shape. In addition, EAGA's customers also insist that producers adhere to specific safety procedures for handling agro-chemicals, comprehensive record keeping, risk management procedures, and Fair Trade practices<sup>15</sup>.

EAGA's operations consist of the following:

- Management offices in Nairobi
- Nairobi pack-house for receiving, cooling, grading and packing fresh produce (1000 employees)
- Seven farms with a total of 500 hectares (Ha) of arable land (2000 employees)
- 77 outgrowers (approximately 50 are part of four *self-help* groups).

<sup>14</sup> In the low season (July to September) demand drops as European markets purchase more from local sources

<sup>15</sup> The required Fair Trade practices are articulated mainly by customers and include such aspects as on-farm sanitation structures and farmer development committees.

### 3. Incentives for Outgrowing

A fundamental determination for EAGA is whether to assure production levels through its own farms or through outgrowers. Some crops must be grown on its own farms because the high production costs or small quantities needed are not profitable for outgrowers.

At present EAGA purchases 60% of its exports through outgrowers. Despite the risk of side-selling<sup>16</sup>, outgrowers pose lower production risks and provide the company with greater flexibility in planning. These benefits are seen in the following examples:

- As market demand drops in the low season, EAGA can schedule outgrowers to produce less without reducing the productive capacity of its own farms and the labor required to operate them.
- As levels of demand in importing markets fluctuate on a weekly and even daily basis, EAGA does not have to bear the entire brunt of sudden drops in demand, but can share this burden with outgrowers. EAGA is aware, however, that sharing this burden can be a source of ill-will with outgrowers and one reason for side-selling or switching to a different buyer.
- Given the relative scarcity of suitable plots of land for large-scale commercial farms, using outgrowers allows EAGA access to areas of the country with diverse climatic conditions. As such, the company can offset the seasonal limitations of one area with a shift to production in another, thereby smoothing out overall production levels and assuring the availability of the vegetables it needs. Having outgrowers in different areas also mitigates the effects of droughts that tend to affect one part of the country more than another.
- EAGA agronomists have noted annual declines in water levels in many parts of the country, which the company can manage by strategically selecting outgrowers with more reliable and plentiful water sources.
- Diversified production areas can be achieved through contracting with outgrowers in different areas, which mitigates the risk and spread of diseases and infestations to which a large farm is more prone.

In addition, working with outgrowers (particularly small-scale farmers) improves EAGA's standing with European buyers who value vegetables that are considered Fair Trade. The UK supermarkets in particular place a premium on Fair Trade produce.<sup>17</sup>

<sup>16</sup> Refers to a farmer who sells vegetables produced under contract with EAGA to another company or buyer

<sup>17</sup> Anecdotally, one UK supermarket values Fair Trade vegetables so much that it requested a competitor to EAGA to only supply it with Fair Trade produce, somewhat missing the spirit of the movement.

## 4. Structure of Outgrowing Operations

### 4.1. Organization

This section first looks at the operational structure of EAGA’s outgrowing operations and then examines the two types of outgrowers the company engages.

#### East African Growers

EAGA coordinates the overall outgrower activities from its pack-house offices near the Nairobi airport. The operational divisions and their responsibilities with regard to outgrowers include the following:

- **Logistics Division:** scheduling transportation of seeds and collection of harvested vegetables
- **Planning Division:** overseeing planting schedules in accordance with orders and anticipated demand, supporting Technical Assistants (TA) and Area Managers (AM), negotiating and signing contracts with outgrowers
- **Monitoring Division:** assuring compliance with GlobalGap standards and those for major supermarkets such as Tesco in the UK.

EAGA is active in two regions, Mount Kenya and Central, the latter is the area around Nairobi.<sup>18</sup> Each region has one Regional Manager (RM) and two AMs. The total number of TAs is 15, which is approximately one TA for every eight to ten farmers. The primary responsibilities of EAGA field staff are listed in Table 1.

Table 1: EAGA field staff and their responsibilities

Staff	Primary responsibilities
<b>Regional Managers</b> n = 2	<ul style="list-style-type: none"> <li>• material and technical support to AMs and TAs</li> <li>• communication with Nairobi and execution of planning directives for region</li> <li>• organization of training and other events with outgrowers</li> </ul>
<b>Area Managers</b> n = 4	<ul style="list-style-type: none"> <li>• technical support to TAs with weekly visits</li> <li>• execution of area planning activities and planting schedules</li> <li>• report on harvest estimates and timing</li> <li>• recruitment, assessment and contracting of new outgrowers</li> <li>• monitoring of outgrower progress toward compliance with standards</li> </ul>
<b>Technical Assistants</b> n = 15	<ul style="list-style-type: none"> <li>• technical support to outgrowers</li> <li>• monitoring record keeping of all outgrowers’ activities</li> <li>• monitoring and control of pests and diseases</li> <li>• recruitment and assessment of new outgrowers</li> </ul>

<sup>18</sup> Activities in the Rift Valley currently are dormant following the recent election violence in that area.

Outgrowers

This looks at common aspects of the two types of EAGA outgrowers . Twenty-seven outgrowers are individuals or business partnerships and the rest are part of four self help groups (SHGs)<sup>19</sup>, which comprise 10 to 15 small-scale farmers.

The individual outgrowers are mainly farmers with sufficient access to land or retirees from professional jobs who have invested in horticultural production to supplement their pensions. Outgrowers with a farming background tend to own most of the land they cultivate, but also rent additional acreage. The retirees may lease all land under production though many purchase at least a few acres. In general, most individual outgrowers operate farms with 4 to 6 Ha although there are a few with more than 12 Ha.

The smaller, individual outgrowers often employ between four to six full-time staff, one of whom is likely a farm manager specializing in agronomy. Depending on the plotsizes under production, these outgrowers also employ 10 to 30 part-time laborers (most of whom are women) one to three times a week for weeding and harvesting operations. Larger, individual outgrowers may employ between 40 and 60 part-time staff.

The SHGs are a collection of small-scale farmers who together are able to satisfy the requirements for producing vegetables for EAGA (see section 4.2 below). By GOK law, SHGs have elected officials (Chairman, Secretary, Treasurer and additional committee members) and are legally registered business entities that are exempt from certain business taxes. SHGs also appoint a member or hire a *grader* to grade all members' harvests prior to collection by EAGA. The grader often is paid a modest amount for the service. In addition, they appoint a *scout* to monitor members' farms for pests and communicate with the EAGA TA (see below).

SHG members own most of the land they cultivate although some lease extra plots from neighbors. Of their own land, each member has roughly one hectare, half of which they reserve for subsistence crops. Each member is responsible for his/her production, but EAGA and the SHG committee coordinate what and when to plant.

While SHG outgrowers must adhere to the same requirements and standards as individual outgrowers, their operations differ in important ways as illustrated in the following table.

Table 2: Key operational differences

<b>Individual Outgrowers</b>	<b>SHG Outgrowers</b>
Use of tractors for clearing and preparing land	Little to no use of mechanized tilling equipment
Use of motorized water pumps and storage cisterns for irrigation, some drip irrigation	Use of treadle pump or gravity flow for flood irrigation
Hired labor	Mainly own labor

<sup>19</sup> SHG are formal businesses comprising groups of small-holders organized according to applicable GOK regulations.

## 4.2. Method of Selecting Outgrowers

EAGA field staff (TAs and AMs) is responsible for identifying and recruiting new outgrowers. Historically, EAGA has had little difficulty identifying outgrowers as many qualified farmers typically inquire with EAGA for outgrowing opportunities. There are other instances when EAGA has actively recruited an outgrower due to geographical location or perceived capability. At present, EAGA is in the process of reducing the number of outgrowers and is reviewing how many it intends to retain.

To be selected as an individual outgrower or SHG the candidate must satisfy the following requirements:

- Formal registration with the GOK
- Access to at least 4 Ha of land, which can be owned or leased
- Reliable, year-round access to water
- Soil quality suitable for the crops to be grown
- Soil that previously has not been exposed to contaminants or that runs the risk of future exposure
- Farm infrastructure in compliance with standards for grading sheds, charcoal-cooler / storage sheds<sup>20</sup>, hygienic toilets, safe and hygienic storage facilities for chemicals and fertilizers, accessible hand-washing facilities and proper signage instructing workers on hygienic standards and safety procedures
- Personnel appointed to the tasks of grading harvested production and scouting for pests and diseases
- Record keeping systems that document all farm activities including planting cycles, all input use and harvest times
- Required infrastructure, personnel and record keeping systems are in place within one year of signing an outgrower contract.

EAGA typically schedules new outgrowers to produce only small quantities of vegetables initially. Production amounts increase as the outgrower becomes more experienced and trusted.

## 4.3. Procurement / Distribution of Seeds and Inputs to Farmers

EAGA supplies all outgrowers with high-quality, hybrid seed from international providers such as Royal Sluis. The amount of seed distributed is based on EAGA's estimated market demand. For example, EAGA distributes sufficient seed for outgrowers to plant a total of 13 Ha per week of fine beans, 11 Ha of snow peas and 2 Ha of sugar snaps. However, as the low-season approaches, EAGA reduces the seed it distributes in accordance with lower expected demand.

EAGA deducts the cost of seed from payments to outgrowers and does not include administrative or transportation costs. For SHG outgrowers, EAGA distributes seeds to the SHG committee which is then responsible for assuring that its members receive the appropriate amounts and varieties of seed.

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<sup>20</sup> Charcoal cooling sheds have walls with 8-10cm of charcoal between wire mesh that is kept moist to cool the interior.

EAGA previously distributed other inputs to outgrowers but ceased this activity for the following two reasons.

1. Compliance with international standards proscribes using collection vehicles to transport agro-chemicals. To maintain its distribution of inputs, EAGA would have had to invest in a second set of distribution vehicles, which was too expensive.
2. Outgrowers have little or no difficulty obtaining appropriate agro-chemicals from local suppliers<sup>21</sup>. EAGA does, however, supply all outgrowers with a list of agro-chemicals that are in compliance with international standards, and before applying most agro-chemicals outgrowers consult with EAGA.

Given the company's increasing challenge of ensuring outgrower loyalty and reducing side-selling, EAGA is re-assessing whether to renew the distribution of other inputs. See section 5 below for more details.

#### **4.4. Coaching / Training Contract Farmers**

EAGA invests heavily in training its outgrowers, which takes place in different ways. The majority of coaching and training comprises one-on-one sessions between outgrowers and TAs during the latter's weekly visits. AMs reinforce TA advice during their periodic visits and tAs provide additional training by working closely with outgrowers to solve problems as they arise.

Outgrowers also get to exchange experiences with other outgrowers in meetings EAGA organizes. For two to three days each year outgrowers discuss farm management and technical issues and compare approaches to solving particular problems. In addition, EAGA offers a range of technical workshops tailored to farm managers, new outgrowers and on-farm specialists like graders and scouts. Workshops occur once or twice a year, sometimes more often and the company contracts out development and facilitation of the workshops to training companies. Some recent workshop themes include the following:

- Orientation and training for new outgrowers in horticulture, farm management, grading, etc.
- Changes in market requirements, standards and measures farmers must adopt to be in compliance
- Strategies for improving yields
- Strategies for managing pests
- Strategies for improving farm operations and managing production costs
- Grading product (for designated graders)
- Identifying pests and monitoring crops (for designated scouts and/or farm managers).

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<sup>21</sup> In one instance, a local supplier agreed to seven-day credit terms for members of one SHG; an arrangement negotiated by the SHG Chairman and Agro-Vet owner with no support from EAGA staff.



#### 4.5. Technical Assistance to / Monitoring of Contract Farmers

In addition to their coaching responsibilities, EAGA TAs closely monitor outgrowers for compliance with the myriad requirements of international and supermarket standards. TA monitoring responsibilities include the following:

- Assess the risks of contamination for every plot planted or replanted and report on the history of crops planted, inputs used, the reliability and quality of water sources and existing and potential contamination threats
- Communicate the planting schedule of
- Monitor the production stages (growth, flowering and fruiting, and estimated harvest time) and assure appropriate farming activities take place in accordance with the production stage<sup>22</sup>
- Monitor and control for diseases and pests or respond to reports from scouts and determine interventions for outgrower
- Estimate harvest projections in terms of quantity and timing and report findings to the AM
- Monitor how production is harvested and collected
- Ensure outgrowers are in compliance with all record keeping system standards —input use, production cycles, harvest records, etc.—as well as hygienic and safe practices for storing inputs and using farm equipment, e.g. sprayers
- Inspect sprayers and calibrate emission rates to ensure standard rates of application of chemicals.

The audit division from EAGA’s Nairobi office audits each outgrower and farm plot annually for compliance with the above. The auditors’ findings are included in the company’s applications for GlobalGap and UK supermarkets’ certification regimes.

#### 4.6. Contracting and pricing strategies

EAGA has a simple one-year contract with its outgrowers that can be renewed annually if both parties agree. Its simplicity is designed to communicate clearly the expectations of the company vis-à-vis its outgrowers rather than serve as a legal document whose enforcement is doubtful.

The basic elements of the contract are:

- Outgrowers agree to abide by EAGA’s instructions and assure their compliance with the requirements of GlobalGap and other standards of EAGA buyers
- Outgrowers agree to pay back EAGA for the seed they receive
- Outgrowers agree to sell EAGA the vegetables they produce and not sell either the vegetables or the seed to third parties
- EAGA agrees to pay outgrowers a floating market-rate for their vegetables.

The market-rate that EAGA pays its outgrowers is the spot price local brokers pay. This information is gathered in a seemingly unsystematic way by many of the major exporting companies such as Homegrown and Sunripe. These companies and EAGA share this information

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<sup>22</sup> For example, certain chemicals are proscribed in the weeks prior to harvesting.

in order to stay abreast of spot market-rates and set their outgrower pricing strategies accordingly.

EAGA made the decision to pay outgrowers a floating market-rate in February 2007. Before this, EAGA paid a fixed rate, but due to an increase in competition from buyers of vegetables and an upward trend in spot-market prices, EAGA's outgrowers requested that prices be allowed to float with the market. After a series of consultative meetings with outgrowers, EAGA management altered the contracts accordingly.

Notably absent from the contract are assurances that EAGA will purchase all the outgrowers' vegetables, even if they are produced using EAGA-distributed seed and satisfy all quality standards. While some outgrowers view this as an important failing of the contract, EAGA is unable to make such assurances given the volatility of its own buyers' demands, especially during the low-season months.

#### 4.7. Procurement operations

EAGA knows the anticipated production of its outgrowers in advance as it is based on the company's planting schedule for outgrowers (see section 4.3 above). The exact dates and amounts to be collected are monitored by EAGA TAs and coordinated between the AMs and the Nairobi pack-house. The procurement process runs roughly as follows:

- The outgrower harvests the vegetables; grades them in the grading shed; packages saleable vegetables in crates<sup>23</sup>; affixes labels identifying the farm plot, outgrower, and product; and stores crates in a charcoal cooling shed
- EAGA's refrigerated truck collects the vegetables and, after other collection stops, transports them to the pack-house
- At the pack-house, inspectors verify the shipment and determine if the quality is sufficient<sup>24</sup>. Once accepted, samples are taken to verify MRLs<sup>25</sup>.
- Further grading takes place as employees pack vegetables in ready-to-sell plastic containers, which then go to the pre-shipment cooling room
- Vegetables that do not pass inspection or grading are returned to the outgrower
- Payment is transferred to the outgrower's bank account two to three weeks later based on the quantities accepted less the cost of seed
- A printed report is sent to the outgrower with the following: payment transferred, volumes and value of vegetables accepted, reasons for rejection and the cost of seed.

In the case of SHGs, payments are wired to the group's account and the report is sent to the Chairman of the SHG committee, who is responsible for ensuring payments go to individual producers. According to EAGA staff, the tardiness or failure to forward payments to members or

<sup>23</sup> Crates are supplied by EAGA.

<sup>24</sup> At least 60% of a received crate's contents must immediately appear able to pass quality control standards.

<sup>25</sup> Laboratories in Europe conduct the MRL tests; it is less expensive there and more reliable than tests conducted in Nairobi.

lack of transparency in the process are the top causes of group failure. Although EAGA recognizes this issue, it is not allowed to intervene in SHG internal functions.<sup>26</sup>

#### 4.8. Incentives for Farmers

The main incentives for farmers to become EAGA outgrowers are:

- The market for their crops is nearly assured and farmers do not have to spend time or money on marketing activities
- Small-scale SHG farmer-members can make better use of their existing land by producing cash-crops, which might otherwise remain fallow if they produced only for subsistence
- Farmers have access to technical assistance and training and to expensive, high-quality seeds, which results in much higher yields than many would achieve on their own.

Conversely, many outgrowers identified the following actions of exporters (not just EAGA) as detrimental to the outgrower-exporter relationship:

- Lack of respect and encouragement
- Failure to collect production or to collect it late
- Failure to communicate regularly
- Disorganized and unreliable technical support
- Lack of flexibility and openness to discuss changes and improvements to contract arrangements
- High rejection rates and exporters' lack of alternative markets for vegetables that fail to pass the stringent physical standards of some buyers but which are otherwise acceptable<sup>27</sup>.

### 5. Fundamentals of Success

According to EAGA management, the most important elements of its success with outgrower operations have been its ability to:

1. ***Be flexible and respond dynamically to change***: Since the company began 20 years ago, the market for fresh vegetable exports has changed dramatically as have relations with outgrowers. The major forces behind these changes include:
  - Increased complexity of market requirements, e.g. GlobalGap and supermarket standards
  - Increased competition from new entrants to vegetable exporting, many of whom do not have their own farms or outgrowers
  - Pressures on outgrowers in terms of lower water availability, increasing costs of production and diminishing yields.

<sup>26</sup> Partially to address SHG payment issues, EAGA has begun holding monthly meetings with SHG members in an area where payment issues can be raised with its representatives and immediately furnishes reports so members can pursue matters with their SHG Chairmen.

<sup>27</sup> An EAGA competitor estimates that nearly 50% of what it collects from outgrowers is returned or dumped for failing to meet buyer standards.

In response, EAGA has progressively altered its outgrower operations and changed its policies. As noted above, EAGA is reviewing whether to start providing more inputs to help lower production costs and further secure outgrower loyalty.<sup>28</sup> In addition, EAGA can threaten to stop distribution of these high-quality, low-cost inputs to outgrowers and eject them from its program if they side-sell.

2. ***Provide good quality, readily available technical assistance, training and support:*** Outgrowers value these services as they provide a certain degree of assurance about EAGA's commitment and they reduce the farmers' risk of loss when producing crops like exportable vegetables that entail high costs of production.
3. ***Provide opportunities for outgrowers to communicate with all levels of the company:*** EAGA recently began holding monthly meetings with outgrowers to allow them direct access to staff other than the TAs and AMs and to improve EAGA's overall understanding of their issues.
4. ***Be organized and punctual:*** Outgrowers view EAGA as a credible partner because its logistics and technical support are well organized and dependable.
5. ***Provide year-round market access:*** Many of EAGA's competitors, especially the new entrants, are unable to assure a market in the low-season, which effectively differentiates the company and makes being an outgrower for EAGA a valuable opportunity.

## 6. Biggest challenges

EAGA's biggest challenge is outgrower loyalty and the side-selling of both seed and harvested vegetables. The new exporters entering the market, the rise in the number of local brokers and traders and the swiftness with which prices are communicated by cell-phone have all exacerbated the problem of side-selling.

Another challenge for the company is the stability of the SHGs. Much energy and effort is expended to bring a group of 10 to 15 small-scale farmers into compliance with international standards and to produce good quality vegetables. The structure of SHGs and EAGA's inability to intervene in their internal workings increases the risk of working with such groups, despite the value that many of EAGA's buyers place on such arrangements.

Lastly, EAGA is challenged to find solutions to a host of technical problems that increasingly weigh on outgrowers across Kenya. These issues include i) the lack of available land for outgrowers and EAGA to buy or lease for larger-scale farming, ii) lower water levels, and iii) higher costs of production brought on mainly by rising costs for fuel and nearly all farm inputs.

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<sup>28</sup> Conversely, the company also is evaluating whether to reduce the overall amount it purchases from outgrowers in favor of its own farms; instead of purchasing 60% from outgrowers, reduce that progressively to 40% and then to 20%.