



Working with Contract Seed Growers

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Seed Enterprises Management Institute
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Contract Seed Growing

- Outgrower Scheme: contractual partnership b/n Growers or landholders and a company for the production of commercial seed
- Mutually beneficial relationship
- The seed company needs the seed grower
- The seed grower can benefit from the seed company
- **Common objective: to reduce market uncertainty and secure highest possible return on investment!!**

WIN - WIN



Grower selection and recruitment

- Selection process affords you opportunity to manage your growers – establish criteria.
- Recruit those that meet the criteria.
- Recruit those that will help in the achievement of your goals.

- **Avoid trouble makers**



- Therefore selection & recruitment should be thorough and objective

Build long term relationships

- This takes time but it can be done.
- Businesses thrive on repeat business, so there is a mutual desire to build long-term relationships
- Make your company worth growing for
- Help your growers to be successful farmers
- Get involved in events in their farming community
- Success with farmers is more than production – it involves building relationships

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Growers' association

- A growers' association represents the interests of seed growers.
- Lobby for fair contracts, prices, inputs on behalf of growers.
- Represent growers when pricing models are established.
- Also helps in communication with growers on various issues.
- Once you reach an agreement with the association, all parties should respect that agreement.

- But they can be powerful and have a lot of bargaining power in their favour.



"I'm getting the fire-breathing dragon with wings. He wanted \$200, but I talked him down to fifty bucks."

Reasons for Low Productivity

- Resource limitations
 - Inputs, infrastructure, labour
- Poor management
 - Fertility, population, weeds,
- Poor timing
 - Planting date, missed split planting, irrigation,

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Reasons for Grower Defaults

- Not planting
- Crop failure (drought or management)
- Insufficient resources (labour, cash)
- Quality failure
- Side-marketing
- Side-harvesting
- Domestic consumption

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Reasons for Company Default

- Poor support services
- Un-timely purchase
- Non-purchase
- Late payment for seed
- Shifting quality specifications
- Poor overall Execution of Strategy



Contract Agreements

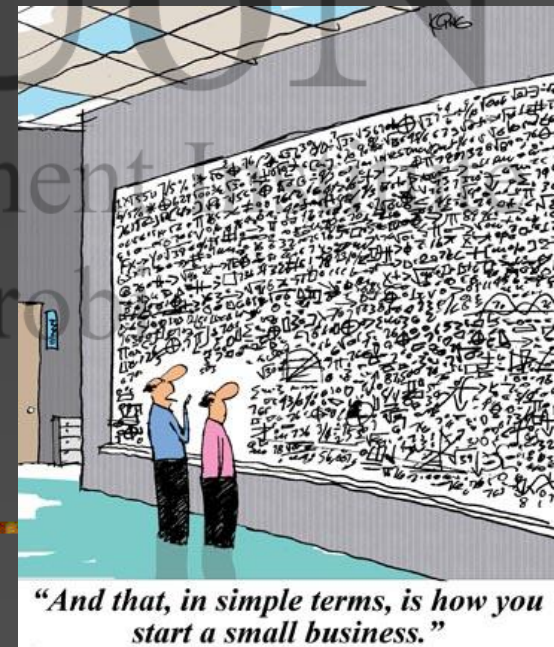
Any successful contracting method will seek to improve productivity by addressing underlying causes of farmer and company default

- Consult farmers when drafting the agreement
- Ensure that farmers understand the agreement
- Specify the responsibilities and obligations of each party
- Indicate the manner in which the agreement can be enforced
- Specify how and when farmers will be paid

Contract Agreements Contd...

- Specify the remedies that can be taken if the contract breaks down

- Keep the agreement as simple as possible avoiding lengthy legalities



Price transparency

- Profitability/sensitivity analysis to ensure both company and farmers can profit in all scenarios
 - Encourage farmers with production bonuses
 - In a non-inflationary environment prices can be agreed at the start of the season
 - In an inflationary environment farmers should be made aware of the formulas used in calculating prices
 - Prices must be sufficiently high to prevent side-marketing
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Key Aspects for Small-holder Hybrid Seed Maize Production

- Community Co-operation
- Capacity Building of Farmers
- Contract Farming
- Cost Management



Community Co-operation

- Maize Seed competes with Maize Grain
 - How to compensate?
- Community Isolation Agreement
 - How to get unity of purpose?
 - Compensation for affected farmers?
- Community Structures and Leadership



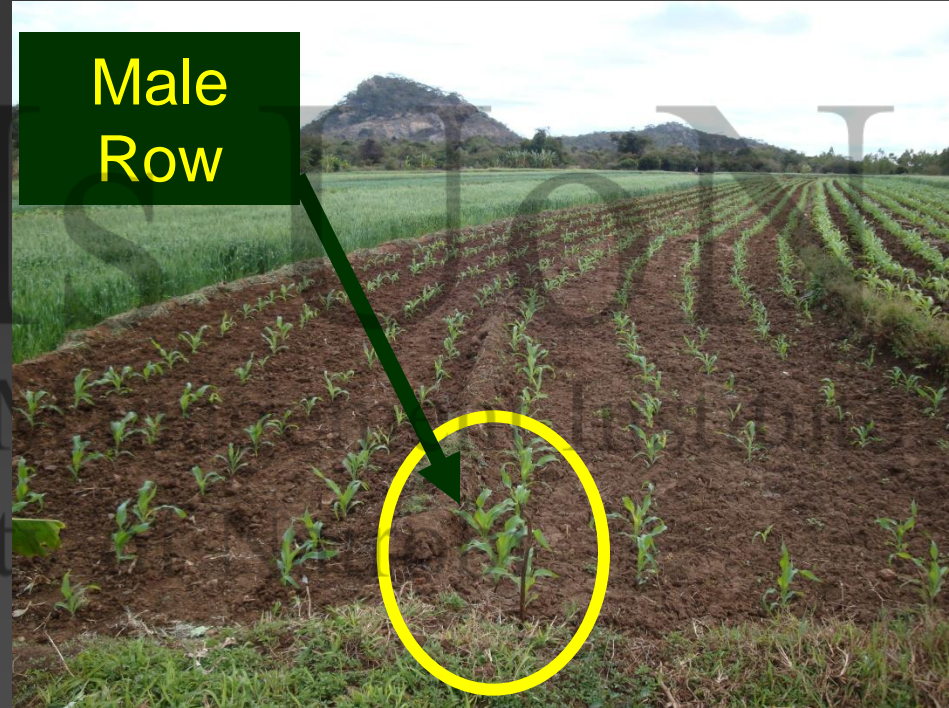
Capacity Building

- Difference between maize grain and hybrid seed
- Crop Agronomy
- Seed Quality

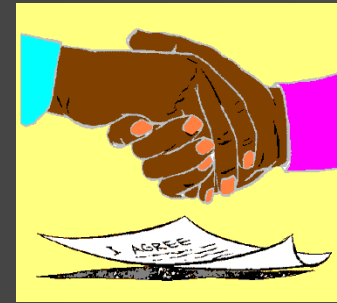
De-tasseling



Male Row



Contract Farming



- Must be built on trust and relationship
- Farmer consultation in Contract Drafting
- Individual or Group
- Obligations of Seed Company
- Obligations of Farmers

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Cost Management

- Costs proportional to the number of farmers and production level
- Inspection costs
- Provision of Production Credits to Farmers
- Recovery of Seed

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Costs of Seed Production

- Farmer Costs

- Inputs, e.g., fertiliser, labour, chemicals, irrigation

- Company Costs:

- Parent seed
 - Seed purchase from growers
 - Inspection and certification costs
 - Transport, bags, warehousing
-

Price determination methods

- Production cost based model
 - A profit margin is added to the cost of production of the crop
 - Yield potential of a female parent is put into consideration
 - The commercial price is also used as a check
- Market price based model
 - A percentage mark up is added to the average market price of the commodity (common with OPVs and SPVs)

Price determination Contd..

- Gross Income model
 - The farmer's expected gross income is divided by the expected yield of the seed crop
- Equivalent Gross Margin Model
 - In this model, the farmer expects to earn an equivalent gross margin per ha from the seed crop as he/she could earn from another competing crop.

Bottom Line!

- Both parties must be in mutual Agreement on price of the produce right from the very beginning!



Thank you for your attention

