



# Inclusive Contract Farming (iCF)

## From conflicting interests to “win-win”



### Introduction

The evolving agri-food systems have introduced new technical requirements and costs, making it harder for resource-poor farmers to access modern markets. Against this context, smallholder farmers remain the backbone of Kenya’s food security. As per the 2022 report from the Kenya National Bureau of Statistics (KNBS), the agricultural sector contributes roughly 22.4% to the country’s total GDP, and smallholder farmers make up around 5.6 million of the overall farmer population - about 75%. In Western Kenya, these smallholder farmers face significant production and marketing challenges.

To fully benefit from farming, they need access to quality inputs, tailored advisory services, affordable technologies, suitable financial products, and profitable markets. Sustainable integration of these farmers into the supply chains of competitive SMEs or large companies

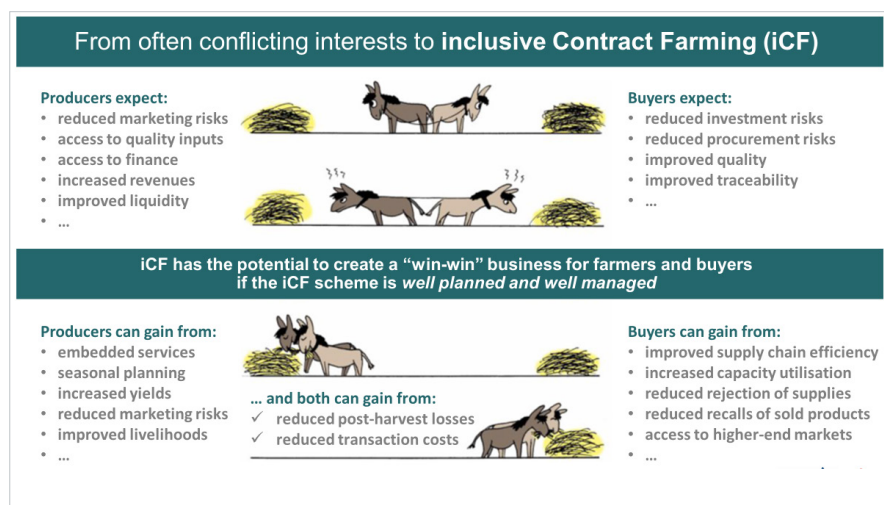
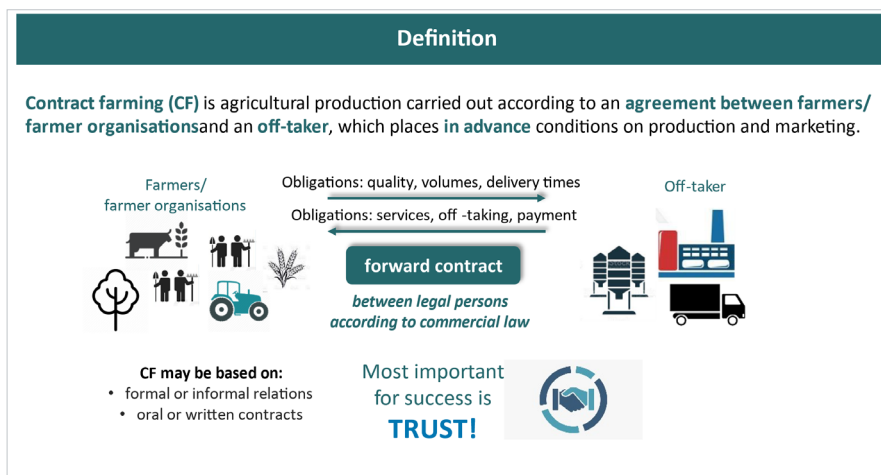
through inclusive Contract Farming (iCF) could be one among other types of inclusive business models that have a huge potential to make smallholder farming systems more modern and professional. With a rise in the need for businesses to maintain a stable supply of quality products, it is increasingly difficult to meet consumer demand under more traditional, open market-based procurement strategies.

### Coaching towards inclusive Contract Farming

Contract Farming (CF) is defined as a forward agreement specifying the obligations of farmers and buyers as partners in business. Farming contracts entail the seller’s (farmer’s) obligation to supply the volumes and qualities as specified as well as the buyer’s (processor’s or trader’s) obligation to offtake the goods and realize payments. CF normally allows for provision of embedded services such as upfront delivery of inputs.

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Inclusive Contract Farming is a business model whose core concept is at the farm supply off-taker procurement interface, linking the off-taker's strategy with the farmers' production systems. The iCF business model consists of a joint business with interdependency of farmers and off-takers and mutualization of resources and risks.



CF is not inclusive by itself; it only becomes inclusive when the general features of Inclusive Business Models (IBMs) like commercial viability, innovativeness, scalability, and ability to achieve impactful social change are implemented, along with the following principles of inclusive Contract Farming: Trust (transparency), scope of negotiation (producers' voice), incentives (mutually beneficial), and risks (sharing & mitigation).

## Our Approach

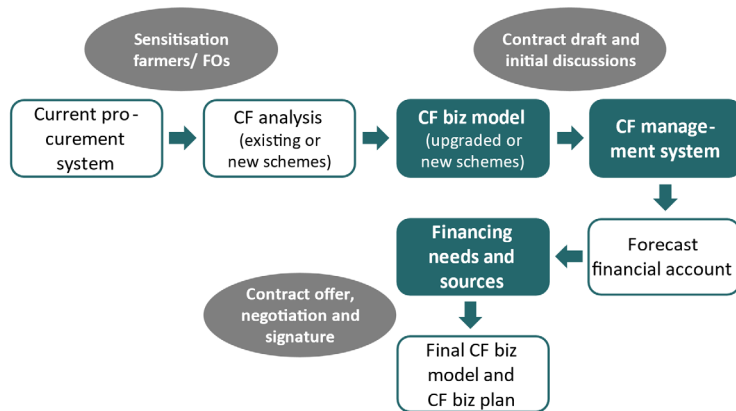
Agri-Jobs **4 Youth** engaged iCF experts to provide coaching and advisory services for seven private sector partners that were already experienced in sourcing from smallholder farmers through informal contracting. The objective was to link these buyers with producers, particularly youth- and women-led organised groups.

All seven SMEs had the potential to expand their supplier base, whether through informal or formal contracting. However, before they could expand their supplier network, they needed to consolidate their existing procurement systems. An iCF expert provided coaching to the companies and their supplier networks.

The tasks focused on advisory services and coaching for strategic iCF business model development and iCF management, including consultancy for the companies' overall business models and operation management as far as required to assure the economic viability and financial sustainability of the enterprises and their iCF schemes.

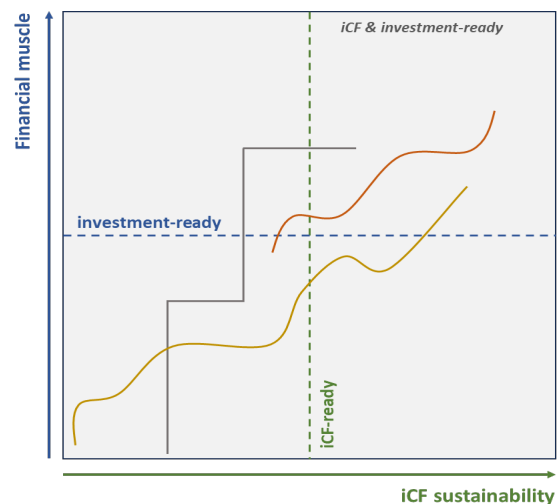
Subsequently, a deeper analysis revealed that intensive coaching and advisory services for the companies' general business models was a prerequisite even before their procurement systems could be upgraded and before any thought could be paid to expanding their networks of contracted farmers.

## Overview of the GIZ iCF Methodology



The iCF and Investment readiness Matrix serves as a strategic tool to assess the growth and sustainability trajectory of small and medium enterprises (SMEs) in relation to their financial strength and ICF sustainability.

The vertical axis, representing “Financial Muscle,” evaluates the SME’s financial capacity—its liquidity, revenue streams, and ability to attract investments. The horizontal axis, “ICF Sustainability,” measures the business’s capacity to integrate innovative, sustainable business models that contribute to long-term resilience, such as adopting environmentally sustainable practices or leveraging digital innovations.



As SMEs move along these axes, they follow distinct trajectories, represented by curves on the matrix. These trajectories illustrate the typical paths that businesses take as they mature. The ultimate goal for any SME is to reach the top-right quadrant of the matrix—where financial stability aligns with a robust, sustainable business model. In this space, an SME has optimized its operations for growth and sustainability, making it highly attractive to investors and better positioned for long-term success. (Source: Ringo, 2022-2024 work with GIZ Kenya – Agri-Jobs 4 Youth.



## Impact

All supported businesses reported significant growth, with some aspects outpacing others. Overall, they improved their business models and professionalised their structures. The adoption of iCF was categorised into structured informal, semi-informal, and formal contracts, building trust before formal agreements. This enabled over 5,000 farmers to access markets across seven enterprises, along with advisory

services, inputs, and credit. Currently, 10% of farmers are under formal contracts, with the rest being in semi-informal or informal agreements based on trust. This is expected to grow up to 40-50% within a year due to the project’s progress. Most SMEs introduced embedded services that complemented their core models, increasing revenue and farmer loyalty.



## Success Factors

- ⌚ There is no one-size-fits-all approach to developing and coaching iCF business models. Individualised coaching is key and must be tailored to the unique needs and capacities of each SME and its supplier network.
- ⌚ To ensure enterprise ownership, the iCF coach acted as a facilitator, allowing producers and businesses to take the lead and manage investment risks.
- ⌚ Despite the name 'inclusive Contract Farming,' signing a contract is the final step. Trust is the foundation of iCF, with farmers starting in informal or semi-informal marketing agreements before gradually moving into formal contracts, which include marketing and embedded services as incentives.
- ⌚ A dual focus on iCF and investor readiness is essential.



### An example from the field

The Mountain Berean started off as an NGO in 2003 and transitioned into a company in 2013, specialising in marketing passion fruit, honey, onions, and vegetables. Based in Mount Elgon, Bungoma County, with production centres across six wards, they are one of seven companies supported in the set-up of inclusive Contract Farming (iCF). They transformed into a social enterprise, sourcing produce from 30 youth and women's groups. They developed four legally peer-reviewed contract documents across their value chains, ensuring inclusivity.

This led to a bankable iCF business plan and increased sourcing from over 1,500 farmers, 30% of whom are formally contracted, with the rest in semi-informal or informal agreements. The Mountain Berean also provides embedded services such as agronomic advice, hive inspection, and input provision to their farmers.



## Further elements

Establishing robust iCF models requires leveraging on existing approaches that complement iCF. For instance, to compliment input supply systems, private sector companies who primarily focus on direct on-farm extension and markets can establish business linkages with Farmer Service Centres (FSCs) to support the delivery of inputs and other technologies

to farmers. Other independent youth service providers such as spray service providers, apiarists, and nursery operators are engaged in partnership formats as market actors within the iCF schemes. E-extension platforms are adopted by the private sector e.g., through agriBORA to supplement on-farm advisory services.

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