

Does EurepGAP standard marginalize poor farmers? – Evidence from Kenya

One way that many sub-Saharan African countries have attempted to reduce poverty and achieve higher rates of growth is by diversifying their export portfolio away from primary commodities into non-traditional exports with more auspicious market trends. The horticulture export industry has become one of the most dynamic expressions of these agricultural diversification efforts, and fits squarely within donor support of labour-intensive trade.

Over the years the Kenyan horticulture industry has grown to emerge as one of the most important sub-sectors in the agricultural sector. Horticulture now contributes about 10 percent to agriculture related GDP of 25 percent. It employs 2.5 million people directly and indirectly. The horticultural sub-sector in Kenya has undergone substantial growth in the last 35 years registering an average growth rate of 20 percent per annum in terms of hectareage, production, and earnings. This trend of development has enabled the sector to contribute to achievement of the national objectives of employment creation, improved food and nutrition security and increased foreign exchange earnings. In the year 2003, total horticultural production was 4.35 million metric tonnes (MT) with a value of Ksh 54 billion (1 US dollar = 72 Ksh – Kenyan Shilling) out of which Ksh 28.8 billion was attributed to export earnings. Most of these earnings went to small-scale growers who number about 1.8 million. It is remarkable to note that the exports have grown from 1,477 MT in 1968 to about 166,000 MT in 2004 and the vast majority of this produce (89.4 %) is destined for Europe, with the UK market absorbing the lion's share. The rapid growth of the export horticulture can be attributed to several factors:

- First, preferential treatment under the Lomé Convention between African Caribbean Pacific (APC) countries and the EU provides concessionary access for Kenyan flowers and vegetables to the European market.
- Second, the sustained demand for horticultural products as a result of high – and growing – incomes in Europe provides a stable and growing market for Kenyan producers.
- Third, Nairobi's location as a centre of air transport between Europe and the East

and Southern Africa region, and Kenya's role as a major tourist destination, ensure that there is sufficient north-bound air cargo to transport exports.

- Finally, the presence of ample local and international investors, particularly in the cut-flower business, provides Kenya with an added advantage (Markandya et al., 1999; voor den Dog, 2003).

Despite the apparent positive success in the last decade or so, sources from the Kenyan Ministry of Agriculture showed that the industry is still faced with numerous challenges, which constrain production and marketing nationally, regionally and internationally. These include declining productivity per unit area; poor infrastructure, inadequate electricity supply in rural areas and market inefficiencies; poor marketing information management; limited access to credit by smallholder producers and stringent dynamic export market requirements on standards.

Producers are facing new challenges related to changes in the structure of consumer demand and the transformation of the food retail market in Europe. European Union (EU) retailers are setting global benchmarks for the production of fresh food, and are asking their suppliers for produce to be certified according to food-safety and quality standards. It is therefore questionable whether small-scale farmers have the resources and skills to comply with standards and the cost of implementing these standards may drive most producers out of lucrative fresh export business.

Large scale farmers are better equipped to meet the high supermarket expectations in food-safety and quality.

Solomon Asfaw
Leibniz University Hannover
Faculty of Economics & Management
Hannover, Germany
solomon@ifgb.uni-hannover.de

Photo: Asfaw



Evolving EU private food-safety standards

European consumers are increasingly aware of the health consequences of pesticide residues. Even consumers who are not part of the growing «organic food» movement (which is stronger in Europe than in the United States) are increasingly wary of agricultural chemicals (Dolan et al., 1999). In 1990, the UK passed the Food-safety Act which obliged food retailers to demonstrate «due diligence» to ensure that the food they sell is safe and the resultant supermarkets developed codes of practice. In practice, this means that supermarkets have become much more involved in imposing requirements on how food is produced throughout the commodity supply chain, even to the degree of monitoring and controlling horticultural production in developing countries (Dolan et al., 1999).

Many of the individual quality and food-safety standards of retailers in the EU have been harmonised, with two prominent common standards being the British Retail Consortium (BRC) Standard and the European Retailers Working Group for Good Agricultural Practices (EurepGAP). Companies supplying branded fresh and processed food products use BRC, which has been in operation since 1996 and it covers basic safety and quality requirements, including HACCP (Hazard Analysis Critical Control Point).

EurepGAP is rapidly becoming a benchmark for on-farm food-safety and quality assurance, and is receiving considerable attention in Europe. EurepGAP is a model of on-farm assurance that is being promoted to growers of fresh food as a mandatory standard and it is regarded as a condition of entry to EU markets and is unlikely to provide price premiums. The EurepGAP detailed production protocols were first developed for fruit and vegetables and now cover flowers and grains.

EurepGAP has a growing membership of European and UK retailers, including leading food retailers such as Sainsbury's, Tesco, Safeway, Coop Italia, Belgian Wholesale Markets, Waitrose and Kesko. The main focus is food-safety, but the protocols also address a number of issues concerning the environment, occupational health and safety, complaint procedures and internal audits. An independent and accredited certification body audits growers to the relevant EurepGAP standard. One announced annual audit is mandatory, and a further 10 percent of growers will be audited each year on an unannounced basis. The requirements of EurepGAP regulations dictate that the quality control standard is only achieved



Photos: Afriw

Spraying on a small scale farm before (above) and after introducing EurepGAP standard.

when all group members systematically apply the individual requirements laid out in the manual (EurepGAP 2003).

EurepGAP offers four options to producers who seek to obtain certification under the standard. Under Option 1, an individual farmer applies for certification. The farmer must carry out an internal self-inspection and undergo an external inspection by a certification body, which is a certification enterprise accredited by EurepGAP. Under Option 2, a group of farmers applies for a group certificate. Farmers must establish an internal management and control system, perform individual self inspections and group internal inspections before receiving an external verification by a certification body. Under Options 3 and 4, individual farmers or farmer groups that have already implemented another standard can apply for a «EurepGAP benchmarked scheme certificate» (EurepGAP 2003).

Small-scale producers and EurepGAP standard in agrifood supply chains

The proliferation and enhanced stringency of food-safety standards is a source of concern among many developing countries and those promoting the increased integration of these countries into the world trading system. Reflecting wider changes

in the trade regime for various agricultural and food products, there is a presumption that food-safety measures can be used as a protectionist tool, providing 'scientific' justifications for prohibiting imports of certain products altogether, or discriminating against imports by applying higher standards and/or more rigorous regulatory oversight than on domestic suppliers (Jaffee, 2004). Even if standards are not intentionally used to discriminate against imports, there is concern that their growing complexity and lack of harmonization between countries could still impede the trading efforts of developing countries. There is also concern that many developing countries simply lack the administrative, technical and scientific capacities to comply with emerging requirements, presenting potentially insurmountable barriers in the short or medium-term. The challenge especially for small-scale producers is the fact that horticultural export is becoming increasingly competitive and sophisticated. The expanding role of supermarkets and the increasing importance of food-safety certification will possibly result in consolidation of the fruit and vegetable export sector since only the larger exporters can provide the reputation, documentation, and volume that supermarkets are now demanding. It is much easier for a supermarket or an exporter to verify that proper production practices are being followed on a handful

of medium- and large-scale farms than it is to monitor 100 or 200 small-scale growers. The concept of «traceability» has risen in prominence. Only if a given lot of produce can be traced back to its original producer can the producer be held accountable for problems with quality or pesticide residues.

Estimates from the early 1990s suggest that smallholders supplied over half of the export fruit and vegetable production. More recently, Dolan and Humphrey (2000) make the case that smallholders are being squeezed out of export production because of the difficulty of ensuring compliance with food-safety and quality requirements imposed by supermarkets and other buyers. They argue that these requirements are leading exporters to grow their own produce or purchase from large-scale commercial farms. According to their interviews with four leading exporters, just 18 percent of vegetables for export come from smallholders.

An alternative and less pessimistic view emphasizes the potential opportunities provided by the evolving standards environment and the likelihood that certain players can utilize such opportunities to their advantage. From these «standards-as-a catalyst» perspective, the challenge inherent in compliance with the safety-standards may provide a powerful incentive for the modernization of export supply chains from small-scale farmers and give greater clarity to the necessary and appropriate management functions of government. Besides this, they argue that complying with the safety standards provides a broad spectrum of potential benefits to the small-scale farmers.

Farmers complying with standards are expected to have high productivity and good quality produce which reduces the level of rejection by the buyers and increase the return. The health and environmental impacts stemming from changes in pesticide use and hygiene practices associated with adoption are surely another important benefit. Adopters have also guaranteed market access and stable income compared to the non-adopters. Further, via increased attention to the spread and adoption of 'good practices' in agriculture, there may be spillovers into domestic food-safety and agricultural health, to the benefit of the domestic consumers. From this perspective, the proponents argue that the process of standard compliance could conceivably provide the basis for a more sustainable and profitable trade over the long-term, albeit with some particular winners and losers. This argument has little support from the literature. Several papers in the literature favours the first argument that the poorest farmers are

excluded from a high value supply chain by providing some empirical evidence from Africa.

How significant is the cost of EurepGAP compliance?

According to data from FoodPlus secretariat, there are about 34 large-scale producers and ten smallholder farmer groups (201 members) who are certified for EurepGAP standard by different certifying bodies for fruit and vegetables all over Kenya under Option 1 and 2, respectively. Implementation of EurepGAP imposed significant costs on smallholder export farmers including capital investments, additional labour requirements and greater managerial inputs. Producers were required to invest in constructing and upgrading physical structures, such as toilets and baths, chemical and fertilizer storage, grading and cooling shed, protective clothing and offices. These costs were a major hurdle that had to be overcome in order to achieve compliance.

According to the author's estimate, it costs approximately 37,000 Ksh per group member to implement EurepGAP and achieve the certificate. The main costs (30,340 Ksh) are for the buildings and facilities that farmers must establish in preparation to implement the standard. These two cost elements comprise approximately 82 percent of the total cost and represent the nonrecurring costs: one-time expenditures to set up the implementation. The other 18 percent (6,660 Ksh) are the recurring costs of compliance (protective clothing, record keeping, salary for grader etc). The costs for external auditing, certification, training and soil analysis were not included in the cost calculations. Unlike big companies and large farms who can purchase all of the required equipment and facilities within six or seven months (a maximum of one year), small-scale farms cannot afford to pay for these costs all at once and hence they tend to prepare for the requirement in two or three years. Indeed many of the smaller producers were forced to rely on

The author

Solomon Asfaw holds a BSc. in Agricultural Economics from Alemaya University Ethiopia and a M.Sc in Horticultural Economics in Hannover University, Germany. Since 2004 he is a Ph.D. candidate (research associate) in Economics at the Faculty of Economics and Management at the University of Hannover. He has worked for three years in World Vision International/Ethiopia on development projects.

loans and external support even though some relied on their own financial resources.

What needs to be done to keep smallholder in the export business?

In order to keep smallholder in the export business, small-scale farmer organizational and networking support issues are key for the following reasons:

- Small-scale farmers need to articulate and represent their interests for fair negotiation in dynamic export markets;
- To support small-scale farmers via creating and strengthening local structures and organizations as the basis of channeling information, organizing activities and dealing with collective action;
- To give small-scale farmers opportunities to achieve economies of scale in input, supply and marketing, as well as to improve market access through improved quality.
- Furthermore, sharing information and experience between small-scale farmers could be mutually beneficial.

It is clear that networking would be beneficial for small-scale farmers; however, in rural areas, which are quite often characterized by poor infrastructure and communication facilities, such an activity requires facilitative support. Institutional support commonly rendered by government institutions, NGOs and donor-supported initiatives is another crucial element in keeping small-scale farmers in the export business. It focuses on individual small-scale farmers, producer groups, trade/business associations and whole sectors of the local or regional economy. The role of public policy coordination and facilitation is to identify, together with the small-scale farmers and/or groups the constraints to the successful operation of the businesses and to facilitate the provision of appropriate support (e.g. technical training).

It is also very crucial for smallholders to have access to appropriate (micro)finance systems. Such support must reflect the specific needs of the respective group of enterprises (e.g., enterprises with seasonal production cycles) with regard to collateral requirements, duration of loans, repayment conditions, etc. Technical support services are also often essential to help refine products and to make them marketable. However, such services are often only available for payment and are therefore not easily accessible, especially to small-scale farmers. The core role of the public sector should be reviewed to consider their role in service provision e.g. quality, inspection services and testing laboratories.