

EurepGAP certification for small producers

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Introduction

The majority of agriculture practitioners worldwide are smallholders. Compliance with market related standards, such as set by EurepGAP², is crucial for obtaining and maintaining international market access, particularly to the European Union. Private standards must allow for innovative and cost efficient certification systems to avoid that small growers get marginalized from national and international economy, especially in developing countries.

For farmer group certification under EurepGAP standards, lessons can be learned from the ample experience with small holders groups certification regarding social (e.g. fair trade) and environmental (e.g. organic / IFOAM) standards. Cases studies reflect that elements determining the viability and sustainability of group certification include the social cohesion of the group, professional capacity.

Market related factors, important for smallholders' access even if compliance with standards is not an issue, determine successful participation in international market chains including minimal economy of scale to decrease costs, minimal internal coordination to guarantee compliance with transactions and even quality, as well as international communication, marketing and general business skills.

One of the problems identified with private standards certification is that the benefits of certification are too uncertain or intangible when compared with the immediate and real financial costs³. Moreover, EurepGAP certification is a B2B certification for main stream markets, not addressing specific niche market which would give added value to suppliers.

EurepGAP certification for small growers is not limited to option 2 only. Importers and retailers ascribe more commercial risks of non compliance to option 2, tending to prefer working with option 1 suppliers. Small holders can be certified under option 1 by participating in outgrowers' schemes. The producer cedes all autonomy over the production process, contributing with land as only input in a leasing scheme, and providing the necessary labour. Outgrowers' schemes tend to be more efficient commercially, as no investments on group cohesion and decision making processes are required. Professional capacity tends to be more easily available, administrative systems easier to set up and operate. From a social viewpoint however, market access does not change power balances in the supply chain nor the distribution of added value, while opportunities for learning lest to fully participate in the international economy are less.

EurepGAP group certification

EurepGAP distinguishes four certification options. Individual farms can apply for certification under option1, while the requirements for group certification are described under option 2. The EurepGAP options 3 and 4 respectively refer to individual and group certification under benchmarked standards. Group

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² Euro-Retailer Produce Working group programme to develop global certification of Good Agricultural Practices (GAP). In 2005 it had 275 retailer members worldwide and more than 35000 producers registered in 62 countries. Major principles in the regulations relate to food safety; environmental protection; occupational health, safety and welfare; and animal welfare.

³ Hannah Scrase, 1999

certification is meant to make EurepGAP certification more accessible to smallholders.

Requirements for Group certification

The four key elements for group certification are described in article 8.2 of the EurepGAP General Regulations.

First, the group must have an operating **Internal Management and Control System (ICS)**⁴. This ICS includes (1) a *Quality System* that can guarantee that certified and non-certified produce will not get mingled by means of adequate traceability procedures, (2) a *Central Administration and Management* to assure that all farms fall under the same control and sanctions system, (3) *Contracts* between group and farmers for at least one whole year, and (4) correct *Internal Auditing procedures*, with at least an annual inspection of each registered farmer.

Second, each registered farmer should complete a **farmer internal self-inspection**, at least once a year, based on the EurepGAP checklist. The checklist must be available on each registered farm (and declared handling sites).

Third, qualified staff must complete an **internal inspection of all registered farms** (including declared produces handling sites) at least once a year. This staff may be from the Farmer Group or subcontracted.

Fourth, **external verification by an approved certification body** of the correct functioning of the Internal Quality and Control System of must take place at least once a year.

Group certification to assure market access for smallholders

The main issue underlying group certification is not whether small farmers can be integrated into marketing channels that meet the challenges of public and private standards, but whether this can be done competitively.

John Humphrey (2005) points out at international market trends to explain the growing importance of public and private standards. He observes that the growing concentration of buyers in global food chains has given rise to more extensive and stringent requirements for quality, reliability of delivery and product differentiation. As a consequence, growing concentration leads to raising levels of competence required of producers and raising levels of coordination in value chains.

Furthermore, concentration in market structure and growing market power for large retailers has impacts on price / value distribution along the chain and leads to the transfer of risks between chain partners, subjecting suppliers to a disproportionate share of commercial risks. Humphrey mentions cooperatives and outgrower schemes as important strategies to reach economies of scale in service delivery, assuring consistent and reliable supply.

To this effect, Vorley et al report that '**small farmer economic organisations**' in the developing world and '**new generation**' cooperatives in the industrialised world, both have similar drivers: producers realising that in a chronically oversupplied market, a marketing mentality—in which organisations perform at higher levels of specification, coordinate technology use and improve scheduling—is necessary to contract into differentiated agri-food chains. Nevertheless, the

⁴ For requirements see EurepGAP General Regulations for Farmer group Quality Management systems (annex 2), Farmer Group Inspector (appendix 3), and Subcontractors (annex 4).

advantages of shortening supply chains and making them more transparent will not benefit poorly organised farmers when more powerful actors appropriate any ensuing savings. The development of cooperatives in the context of globalisation and open borders faces the obvious dilemma: how to reach the required size to exercise countervailing power against transnational agribusiness and retailers that are scouring the globe for their supplies.⁵

Consequently, compliance with standards is only one element determining successful market participation. Private and public standards are a result, not the cause of stricter market requirements resulting from changes in the composition of international supply chains. Globalization leads to higher international competition, and small scale farmers will need to compete in price by reducing costs through economies of scale and by guaranteeing continuity in volume and quality. To assure long term sustainability of the farmers' collective, operating an efficient Internal Control System is not standards- or certification related only, but sound business sense.

Proper financial and central management structure, professional staff, quality control and administration of product flows are elements of the Quality Management System as required by EurepGAP to obtain group certification, but a farmers' group will need to have these minimal organization structures functioning properly to be competitive, reliable and credible market partners to begin with.

Traders with years of experience in working with small farmers' groups and group certification, such as Fair Trade Original (FTO), highlight that product- and market related business administration systems have to be closely fine-tuned to product processes and targeted markets to be functional and efficient⁶. To be considered for Fairtrade certification, groups of smallholders have to prove that they have experience with the commercialisation of product as a group; have logistics and communication equipment in place; that they comply with market requirements and that demand for their products exists.⁷ Consequently, it is recommended that support for cooperatives and outgrower schemes be based upon a realistic appreciation of market opportunities and strategies linking such schemes to export marketing channels⁸.

That being said, the internal and external monitoring and auditing procedures needed to prove compliance with standards, will nevertheless additionally raise coordination costs and lay an additional claim on time, human and financial resources. For similar volumes and cultivated area, proportionally these costs will be higher for group certification than for (large scale and central) individual certification.

Added value of group certification

So the problem presented by standards is how to ensure systematic application of defined procedures without unduly raising coordination costs. The more that compliance has to be monitored by because of buyers' lack of trust in the supplier, the more that coordination costs rise. As mentioned earlier, the critical determinant of coordination costs is the buyers' assessment of the level of supplier competence to perform the tasks required. This results in new standards

⁵ Vorley et al, 2002.

⁶ Conny Falkhoff, presentations on 14-10-2004, Seminar on Business in Development, Agribusiness and sustainable Chain Cooperation, and on 5-4-2005, Agri ProFocus Expert Meeting, "Working with Producer organization, challenge or nightmare?"

⁷ FLO Generic Fair Trade Standards for Small Farmers' Organisations 2005, article 2.2

⁸ Humphrey, 2005

and consequent new sources of risks of non-compliance, which in turn have a discriminating effect upon growers' participation in global markets.

Examples are given in available literature on certification issues. One horticultural exporter in Kenya estimated that sourcing from small farmers costs 20% more than the cost of sourcing from large suppliers. Other studies show that large retailers and European importers give preference to growers certified under option 1, as they consider the risk of non-compliance with deliveries lesser in the first case⁹.

Group certification is generally seen as a way to allow small scale growers (in developing countries) to certify products for western markets through an internal control system¹⁰. The Internal Control System forms the central axe for group certification, independently of the standards the system is designed to comply with. The benefits and costs of group certification and operating an Internal Control System have been assessed by SASA¹¹.

One of the problems identified with group certification and setting up an Internal Control System is that the benefits of certification are too uncertain or intangible when compared to the immediate and real financial costs. Small businesses, those who are applying for group certification, are often not equipped to supply into large volume, high quality international markets. The organizational costs of a functional ICS, -especially in the beginning- might prove to be higher than individual certification, even with the additional benefits for the producers of training and extension. While certification facilitates market access, it does not guarantee it. Furthermore, in the case of EurepGAP, certification gives no added value to the product, while inspection and certification costs are recurring annually.

Indirect benefits related to (group) certification and setting up an ICS are purportedly increased skills of planning and record keeping as a learning tool¹². Furthermore, elements of image and trust towards customers -"easy to sell, no arguments about sourcing"- are subjective and difficult to measure, but do play a role in international markets.

Another factor of importance for small businesses regarding certification is the choice of how to employ scarce resources: how important certification is, relative to other ways to spend the money. Time spent on certification processes is time lost on other aspects of business management¹³.

Administration for certification

Proper auditing and monitoring for inspection and certification purposes, internal and external, represents increasing documentation workload for both staff and farmers, more so in the case of group certification than for individual certification. Time spent is difficult to reduce significantly because of the level of detail required and in the case of group certification no economy of scale is possible for farmer and farmer plot registration. Consequently, it is frequently reported that certification should not generate additional paperwork that is only necessary to achieve certification. This might be determined by defining the minimal documentation that is useful for the validation of good management and clearly assists the staff to do their job.

⁹ Stallen, Marcel et al, 2006

¹⁰ Pascal Liu et al, 2003

¹¹ Pyburn, Rhiannon, 2004

¹² Pyburn, Rhiannon, 2004

¹³ Hannah Scrase, 1999

Illiteracy is particularly a small-farmers-related important bottleneck for certification, in view of the extensive recording required on group and farmer field level. If local qualified staff, competent in technical issues surrounding IPM and post-harvest hygiene is available, the officers will need additional training to develop communication skills to work with farmers and business management training.¹⁴

Certifiers also raise the issue of unfamiliar language, with terms such as "stakeholder", chain of custody and surveillance visit being given as examples.¹⁵ "Biodiversity" and "Environmental Impact Assessment" are also quite unfamiliar concept in some parts of the world, or at least not well understood.

Documentation workload is a repeated concern and obviously most acute in situations where literacy levels are low.

A consultant from NAK-Agro, participating in the pilot project to certify 500 smallholders in Kenya and 200 in Senegal, stresses the importance of good manuals for the implementation of EurepGAP standards, which he views as important as the option of benchmarking "smallholder friendly" national standards. Benchmarked schemes may develop additional requirements, but cannot lower market requirements for compliance with the global standards and may even prefer EurepGAP certification above a benchmarked scheme, as the former is more widely know and accepted.¹⁶

In the draft for an action plan in support of EurepGAP benchmarked local standards, the Consultative Task Force of the UNCTAD cites the fact that producing fresh fruit and vegetable in compliance with the EUREPGAP standard requires a real process change. Besides dominating technical requirements related to agricultural practices, producers have to undergo a change of mentality, behaviour and working methods leading to high precision agriculture.¹⁷

Endogenous versus outgrower scenarios for certification

The SASA study distinguishes two forms of (organic) Internal Control Systems. In the case of the **endogenous** ICS, farmer associations operate well-developed and active internal control systems. In the **outgrower** ICS schemes, group certification is driven by economic objectives as opposed to internal support and producer development.

The two systems have different dynamics. An endogenous ICS reflects the internal aspects of an evolving group but external demands can also stimulate cultural change within the group – this is a process that occurs in stages over time e.g. learning to document the use of inputs. Results take time to become apparent - sometimes five years or longer. Institutionalising the ICS brings a different reality to a producer group. In using the ICS structure for cost reduction a regular, direct contact is initiated between the producer group and certifier as well as other actors. Ideas from outside the community-based system are introduced, which provide the ICS with an opportunity to change and grow.

The second scenario is characterised by farmers who are suppliers to a buyer where the buyer controls the ICS through the implementation of external guidelines to regulate the supply chain and outsourced farmers.¹⁸

Option 1 for the certification of small growers reflects vertical chain integration by smallholders linking up with an exporter: the farmers cede autonomy over

¹⁴ Pesticides news 71, 2006

¹⁵ Hannah Scrase, 1999

¹⁶ Interview NAKAgro, Oct 2006

¹⁷ UNCTAD, 2004

¹⁸ Pyburn, Rhiannon, 2004

production, only retaining property rights on land. All decisions on inputs, production methods, produce handling; price negotiation and communication with buyers are made without the farmers having much saying.

Nevertheless, for development purposes, the SASA assessment warns against romanticising farmer associations in the ICS discussion. While the ICS has its roots as being crucial in a producer group-driven alternative certification, permitting grower groups to develop their own standards may simply not be possible as standards are required so as to assure quality to the consumer. The issue of top-down certification is not a problem exclusive to smallholder groups; all producers face this challenge. The participatory approach may give an expectation for improvement and room for development, which does not, in fact, reflect how the market operates.

Scrase also mentions in her study that certification bodies reported that they felt certification has been "oversold" to small businesses by enthusiastic individuals or organisations.¹⁹

Comparing both options for smallholders' certification

Option 1 may be preferred above option 2 in those cases when group cohesion is low or nonexistent, and the group has no experience in joint commercialisation. Heterogeneity within a producers' group also renders group certification very difficult. The degree of heterogeneity can be assessed by the degree of dependence on the income from commercialisation through the group and other characteristics of the farms, such as size and dependency on hired labour.

Furthermore, assessment of the need for external support gives clues on which scheme to choose. Suppliers that are not considered competent require more technical and managerial support and a higher level of supervision to ensure compliance. In this case, certification under option 2 may not bring the sought after market participation, due to the perceived higher risks of standards compliance and sustainability by potential buyers.

Rhiannon Pyburn (2005) gives a comparison of both schemes:

Group Certification (Internal Control System) Continuum	
<i>Endogenous</i>	<i>Exporter-led</i>
<ul style="list-style-type: none"> ▪ Strong sense of ownership-built from the 'grassroots' up ▪ Producer organisation owns the (organic) certificate ▪ Often working with NGO support ▪ Success depends on group solidarity, collective bargaining techniques and institutions that enforce contracts impartially and secure long-term property rights (Vorley, 2002). 	<ul style="list-style-type: none"> ▪ Out-sourced ▪ Certification costs paid by the exporter ▪ Extension provided by the exporter ▪ Dependence on the exporter ▪ Export professionals ▪ ICS organised by exporter

The challenges relate to the characteristics of each of the schemes. The exporter-led scheme will have fewer benefits from internal social control, as farmers will feel less responsible for the results than when operating their own ICS and commercialization. Lack of expertise and sufficient funding will hamper the operation of endogenous ICS systems, while participation in (integrated) supply

¹⁹ Hannah Scrase, 1999

chains is not guaranteed. In this case (option 2), however, farmers have more learning opportunities.

Challenge for exporter-led systems

- Endogenize so that principles are internalized - build a more credible system
- Increase sense of producer ownership
- Stimulate social control
- Support parallel systems that build on the organic ICS
- Dynamize and stimulate learning and development
- Capitalize on the potential

Challenge for Endogenous ICS

- Professionalize export system
- Funding extension and organizational development
- Lack of expertise regarding international trading system requirements and norms
- Lack of contacts (especially initially) for longer-term trade relationships
- For development purposes, ICS is a tool without instructions, without good regional models, it does not automatically lead to producer exchange on best practices.
- Industry buy-in
- Sustained cohesion of farmer groups necessary for practical ICS
- Continuous interest and commitment by implementing partners.
- Uninterrupted availability of trained staff²⁰

Choosing between endogenous and exporter-led system

Resuming, experiences from social standards' certification show us that small farmers' groups have benefitted from certification, mainly through success in self organization, resulting in better bargaining positions, better credit worthiness and economies of scale. Higher level of self organization was possible through capacity building, an initial guaranteed market, linkages with the international market and learning by doing in exporting. In addition, participation in fair trade markets leads to quality improvements.²¹ In farmers associations, farmers retain active participation in decision making and monitoring.

Under option 1, the outgrower scheme, farmers cannot sell to other buyers, nor have the opportunity to obtain joint commercialisation skills and diversify their portfolio of customers. Nevertheless, this option is preferable where producers' organizations do not exist or are weak²², or have no experience with marketing as a group. Investments in social cohesion and capacity building will be high, with uncertain benefits in terms of sustainable market participation.

Benefits of certification under option 1 include a guaranteed market access, stable price, less investments needed for development of professional staff and structures for internal coordination and auditing. Requirements of traceability favour large commercial farms and exporter-led cultivation schemes.²³

Group dynamics are less likely to infer with commercial transactions, which might be one of the reasons that customers deem risks of non-compliance less in the case of option 1 certification.²⁴

²⁰ Last four bullets by Owusu, Emmanuel, 2006

²¹ Dankers, 2003

²² Liu et al, 2004

²³ Pyburn, Rhiannon, 2004

²⁴ Vorley et al, 2002,

For both options, the creation of national inspection and certification bodies as well as the benchmarking of national standards will lead to considerable cost reduction and in-country retention of knowledge and skills on compliance with standards.

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