

CAPTURING THE GAINS



*economic and social upgrading
in global production networks*

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**Global and regional supermarkets:
implications for producers and
workers in Kenyan and Ugandan
horticulture**

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Abstract

East Africa is emerging as an important horticultural producer and exporter, but with different levels of success in different countries. Kenya has become an established exporter of niche vegetables, mainly to the European Union (EU); other countries, such as Uganda, have struggled to enter this export trade. However, destination markets are shifting, with a rise in South–South trade, including within Sub-Saharan Africa (SSA). Supermarkets play a key role in horticulture trade with the EU, coordinating sourcing from production through distribution to retail, rather than purchase through remote market agents. Supermarkets are also expanding within newer destination markets, driving the rise of regional value chains within the global South. This paper asks what the implications are of global and regional value chains for upgrading of fresh fruit and vegetable (FFV) producers and workers within Africa, focusing on the rise of supermarkets within Africa?

Global value chain (GVC) analysis provides insights into changes taking place in both global trade and regional trade (across SSA) led by supermarkets. The concepts of economic and social upgrading and downgrading facilitate analysis of the extent to which producers have been able to move to higher-value activities (economic upgrading), and to which workers have experienced improved conditions and rights (social upgrading). European supermarkets require adherence to stringent global standards (including their own certification, GlobalGAP (Good Agricultural Practice) and social and environmental standards). Large horticultural producers are more able to meet these private standards, which in turn have helped raise product quality and improve conditions for workers. Standards can represent significant barriers to smallholders' ability to access global supermarket value chains.

Kenyan case study research confirms that economic upgrading has taken place in Kenyan horticulture among larger commercial firms able to supply global supermarkets, and finds this has contributed to some social upgrading for workers – although low real wages and job insecurity remain a problem (workers in Kenyan flowers have fared better than those in FFV). Some smallholders have been able to access GVCs as out-growers to larger firms. In Uganda, one medium-sized flower farm is also supplying FFV to regional and global supermarkets. Its workers have experienced some social upgrading, but again real wages remain insufficient. However, Ugandan horticulture is mainly dominated by smallholder farmers, who have been unable to access GVCs or upgrade, and at best manage to supply small ethnic markets in Europe.

South African and Kenyan firms are leading the expansion of supermarket retailing within East Africa (albeit from a low base). Within Kenya, domestic firms dominate the supermarket sector, and rumours of foreign firms entering have yet to become a reality. In Uganda, both South African and Kenyan firms operate, including the South African company Massmart Holdings, acquired by Walmart in 2011, which has a store (and plans to expand). Regional supermarkets are an emerging channel for expanding trade in fresh produce across East Africa. They are opening up new opportunities as well as challenges for smallholders and workers, and provide an alternative to exporting to European supermarkets. Domestic and regional supermarkets operating within East Africa also apply standards (mainly product, some process; rarely social or environmental), which are normally less stringent than those European supermarkets require.

In the first phase of entering a country, regional supermarkets mainly import produce (often from their home country); in the second phase, as capacity develops among local suppliers, they expand domestic sourcing; in the third phase, as supermarkets move to new countries, they may

import from phase two suppliers through their regional distribution chains (although suppliers themselves are often unaware their produce is exported).

Within Kenya, case study research demonstrates the ability of some organised smallholder groups to supply domestic and regional supermarkets, as both phase two and phase three suppliers. In Uganda (where supermarkets are more recent), regional supermarkets import produce from their home countries that could be produced locally, but they also source locally from one medium-sized farm and a few well-organised out-growers. Small amounts of Ugandan FFV are also exported to their other stores in East Africa and South Africa. However, fragmented smallholders are struggling to supply regional supermarkets. Uganda is therefore largely in phase two. However, Ugandan FFV exports to Africa are expanding, and supermarkets provide a potential channel to promote this. Domestic and regional retailers open up an expanding but lower entry point into supermarket value chains. They provide a channel through which suppliers (especially smallholders) can be encouraged to 'climb the value chain ladder', whereby economic and social upgrading are incremental processes, with movements from one level to the next, rather than attempting to reach higher-level global standards and markets in one go.

This has important policy implications, as donor and government policies often focus narrowly on supporting smallholder access to GVCs. Kenya provides an example of support (from both government and donors) helping local producers to move up the value chain through access to domestic (and, through this, regional) supermarkets. Within Uganda, there is little evidence of government or donor support for local smallholders to supply regional supermarkets operating within the country; their focus is on meeting GlobalGAP standards. Interviews with South African supermarkets operating across SSA indicated they had little engagement with policymakers (although this is beginning to change).

'Value chain upgrading' strategies need to be buyer- rather than producer-led, taking into account differentiated requirements of domestic, regional and global supermarkets. Key challenges include supporting producer capabilities and organisation to meet standards; enhancing the skills, rights and rewards of smallholders and workers; and building a cool chain, logistics and trade facilitation. Supporting wider communities (education, health, housing and transport) is also essential to reverse the move out of agriculture by more skilled farmers and workers and to enhance rural appeal. Both public policy and public/private strategies need to be more 'joined up' in addressing challenges across the different value chain nodes, rather than focusing on separate nodes without taking others into account. Better alliances need to be forged between different initiatives (particularly to address the multitude of standards). With better support, smallholders could begin to climb the value chain ladder (upgrade) as they gradually adapt to the increasing demands of different supermarkets. A global and regional value chain approach illuminates possibilities for addressing these challenges and provides a framework for forging new forms of partnerships to support more resilient horticulture value chains in the medium to long term.

Keywords: Kenya, Uganda, horticulture, global value chains, upgrading

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Abbreviations

CBA	Collective Bargaining Agreement
CDU	Crop Development Unit
COLEACP	Europe, Africa, Caribbean and Pacific Liaison Committee
CPRC	Chronic Poverty Research Centre
CSR	Corporate Social Responsibility
DC	Distribution Centre
DFID	Department for International Development
DRC	Democratic Republic of Congo
EAC	East African Community
ESRC	Economic and Social Research Council
EU	European Union
ETI	Ethical Trading Initiative
FAO	Food and Agricultural Organization
FGD	Focus Group Discussion
FFV	Fresh Fruit and Vegetable
FPEAK	Fresh Produce Exporters Association of Kenya
GAP	Good Agricultural Practice
GDP	Gross Domestic Product
GoK	Government of Kenya
GVC	Global Value Chain
H&S	Health and Safety
HCDA	Horticultural Crop Development Authority
Hortexa	Uganda Horticulture Exporters Association
HPOU	Horticulture Producers Organisation of Uganda
HVAE	High-Value Agricultural Export
ILO	International Labour Organization
IMF	International Monetary Fund
IPL	International Procurement & Logistics Ltd
ITC	International Trade Centre
KHCP	Kenya Horticulture Competitiveness Project
MRL	Minimum Residue Level
NER	Net Enrolment Ratio
NGFN	National Global Food Network
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
PIP	Pesticides Initiative Programme
PMO	Primary Marketing Organisation
PPE	Personal Protection Equipment
QUISP	Quality Infrastructure and Standards Programme
SCI	Sustainable Consumption Institute
Sida	Swedish International Development Cooperation Agency
SSA	Sub-Saharan Africa
TMEA	TradeMark East Africa
UK	United Kingdom
UN	United Nations
UNBS	Ugandan National Bureau of Standards
UNCTAD	UN Conference on Trade and Development
US	United States

USAID
WTO

US Agency for International Development
World Trade Organization

1. Introduction

The expansion of supermarkets has led to important transformations in African horticulture.¹ Since the 1990s, the rise of global value chains (GVCs) led by European supermarkets has been an important force behind the rise of African high-value agriculture. This has provided opportunities for larger commercial farmers and their workers, but posed challenges for smallholders. African fresh fruit and vegetables (FFV) have long had a high dependence on exports to the European Union (EU). However, more recently, there have been significant shifts in the destination markets for African FFV – away from traditional export markets towards Asia and Middle East, as well as within Sub-Saharan Africa (SSA). This trend gathered pace with the financial crises of 2007, and with the ensuing downturn in many Northern consumer markets. Supermarkets are also expanding within newer destination markets, driving the rise of regional value chains within the global South. This paper asks what the implications are of global and regional value chains for upgrading of FFV producers and workers within Africa, focusing on the rise of supermarkets within Africa.

GVCs operate differently to traditional wet markets. They are defined by planned linkages between firms along the chain – from inputs, to production, through to processing/packing, distribution and retail to the final consumer. They are coordinated and governed by lead firms that specify targets and set standards for their upstream suppliers.² European supermarkets implement private standards (largely more stringent than EU trade standards), which often act as a barrier to smaller African producers. The implications for producers and workers of access to (or exclusion from) value chains is analysed through the concepts of upgrading and downgrading. *Economic upgrading* is defined as moving to higher-value activities in value chains, and *social upgrading* as improved employment, pay and rights of workers (Barrientos et al., 2011). Research summarized in this paper was undertaken in Kenya and Uganda in 2011/12. Case studies were carried out in both countries examining the implications of procurement by global and regional supermarkets for selected producers, smallholders and workers.

Research confirmed other studies that economic upgrading has taken place in Kenyan horticulture among larger commercial firms able to supply global supermarkets. It also found there had been some social upgrading for workers (greater in Kenyan flowers than in FFV). Smallholders have often been unable to access GVCs, except as out-growers to larger firms, because of their difficulty in meeting global supermarket standards and volumes. In Uganda, only one medium-sized farm that produces FFV and flowers is known to be successfully supplying FFV to regional and global supermarkets. However, FFV production is dominated by smallholder farmers, who have experienced little or no economic or social upgrading, and at best manage to supply niche ethnic markets in Europe.

The expansion of South–South trade provides new opportunities for African FFV smallholders and workers. Regional supermarkets within SSA itself are leading some of this trade. African supermarkets also require standards and volumes, but they have more mixed sourcing strategies, and standards are normally less demanding than those of their European counterparts. This raises the question of whether African supermarkets offer a potential entry point for smallholders into FFV

¹Horticulture consists of fresh fruit, vegetables, flowers and other ornamental plants. In Africa, horticulture is seen as a high-value agricultural export (HVAE), in contrast with traditional agricultural exports such as coffee, cocoa, tea, sugar and rice. This paper focuses primarily on fresh fruit and vegetables and touches on flowers only where there is overlap or comparison is important. Floriculture is covered in separate studies (for Uganda see Evers et al., 2013b; for Kenya see Gibbon and Riisgaard, forthcoming; Oxfam and IPL, 2013).

² See Kaplinsky and Morris (2002) for GVC definitions and concepts.

value chains at a domestic and regional rather than global level. We find that *domestic and regional value chains* represent a potential route for upgrading in horticulture value chains for smallholders, but only for those able to organize and obtain the capabilities; therefore, significant challenges remain.

In this paper we use the following definitions: (i) domestic value chains are led by supermarkets that operate within only one country; (ii) regional³ value chains are led by supermarkets that operate across SSA and; (iii) GVCs are led by supermarkets that operate in SSA and other world regions (e.g. Asia, Europe, the US, Latin America). For consistency of comparison across countries, we use the Food and Agriculture Organization (FAO) as a source for production data and the International Trade Centre (ITC) as a source for trade data. However, agricultural production and trade data vary widely depending on the source; reported data indicate trends but should be interpreted with caution.

The paper is divided into seven sections. Section 2 examines the changing trade dynamics of Kenyan and Ugandan export horticulture. Section 3 reviews GVC analysis and governance via standards applied by supermarkets. Section 4 focuses on GVCs and considers the implications of EU supermarket procurement for the economic and social upgrading (or downgrading) of smallholders and workers in Kenya and Uganda. Section 5 focuses on regional value chains, examining the expansion of supermarket retailing within East Africa, and the types of procurement strategies they adopt. It considers the implications for Kenyan and Ugandan smallholders of supermarket procurement within domestic and regional value chains. Section 6 explores access to global and regional value chains as a strategy for 'climbing the value chain ladder' and considers the policy implications for promoting economic and social upgrading of smallholders and workers. Section 7 concludes.

2. Kenya and Uganda horticulture trade: global, regional, national trends

Globally, horticulture is the single largest category in agricultural trade, accounting for more than 20 percent of world agricultural exports (UNCTAD, 2012); it more than doubled from US\$60 billion in 2001, to US\$167 billion in 2011 (ITC, 2012). Over this period, African horticulture exports grew even faster, more than six-fold, from US\$1.51 billion (2001) to US\$9.74 billion (2011); Africa's share of horticulture exports doubled (from 3 to 6 percent) (ITC, 2012; UNCTAD, 2012). It is not possible to extract from export data the share of horticulture trade that is channelled specifically through supermarket-driven value chains, which are our main focus. However, in this section we examine emerging trends of horticulture production and export trade in the two countries to provide background information for our discussion.

Kenya and Uganda have important horticulture sectors serving their own domestic markets, largely based on smallholder production. Over the past two decades, Kenya has established itself as a high-value horticulture exporter to European markets, particularly in niche products such as mange tout, fine green beans and baby corn. Export production for EU markets has been dominated by larger producers/exporters, with smallholders finding export difficult, except as out-growers to larger companies. Uganda has attempted to expand its horticulture exports to the EU, but its only significant success has been in floriculture. However, since the late 2000s, Uganda's exports to other African countries have increased sharply. Kenya has also increased exports across SSA. As discussed below, the relative importance of EU destinations is declining as trade with SSA, as well as the Middle East and Asia, expands.

³ 'Regional' is used here in the context of world regions rather than regions within nation states.

2.1 Fresh fruit and vegetables: domestic vs. export markets

The data indicate that, while the *share* of production exported is falling in both countries, this is taking place in a context of expanding production overall, and absolute volumes of FFV exports continue to rise. Tables 1 and 2 below summarize recent trends in production, exports and export unit prices for both countries. An important feature of horticulture in Kenya and Uganda is the dominance of domestic markets for FFV. In 2011, only 3 percent of Kenya vegetables and less than 1 percent of Kenyan fruits were exported. Uganda exported approximately 1 percent of its FFV in that year. Kenya is by far the larger producer of the two: 5.1 million tons of FFV produced compared with 1.6 million for Uganda in 2011 (this excludes fresh pineapples and bananas, see discussion below).

Table 1: Production, exports and export prices, FFV, Kenya, 2001-2011

Item/year	Fresh vegetables				Fresh fruits			
	2001	2007	2011	% change**	2001	2007	2011	% change**
Production ('000 tons)*	1,068	2,110	2,140	100	2,326	2,461	2,933	26
Exports ('000 US\$)	104,350	232,020	220,600	111	1,495	2,706	4,881	226
Exports ('000 tons)	50	90	70	40	1	2	4	300
Unit price exports (US\$/ton)	2.09	2.58	3.39	63	1.32	1.52	1.23	-7
% production exported	4.7	4.5	3.3		0.05	0.07	0.14	

Note: *Primary fruits only, including citrus, apples, pears, quinces, melons, papayas, grapes, apricots, cherries, peaches, nectarines, plums and melons, excludes bananas (fresh and dried); and vegetables, including artichokes, asparagus, beans, brassicas, carrots, turnips, cauliflowers, broccoli, chilli, peppers, cucumbers, gherkins, garlic, okra, peas and tomatoes. See FAO (2012) for more detail.

** % change 2001-2011.

Sources: FAO (2012); ITC (2012); HCDA (2012).

Table 2: Production, exports and export prices, FFV, Uganda, 2001-2011

Item/year	Fresh vegetables				Fresh fruits			
	2001	2007	2011	% change*	2001	2007	2011	% change*
Production ('000 tons)*	585	847	986	68	680	630	650	-4
Exports ('000 US\$)	376	2,137	4,729	1,158	1,085	2,154	1,054	-3
Exports ('000 tons)	0.3	22	12	3,900	1.7	5	1.8	6
Unit price exports (US\$/ton)	1,270	97	384	-70	3,037	1,182	2,698	-11
% production exported	0.05	2.6	1.2		0.25	0.70	0.27	

Note: *% change 2001-2011.

Sources: FAO (2012); ITC (2012).

Over the past decade, vegetable production in Kenya has doubled, yet the share of vegetables exported has declined from 4.4 to 3 percent. In Uganda, vegetable production has increased by nearly 70 percent but from a much lower base. Over the same period, growth in fruit production has been modest in Kenya (28 percent) and declined slightly in Uganda (-4 percent). Table 3 presents the data for bananas and pineapples, which are not included in the category of FFV reported in Table 1. This is because dried and fresh fruit are reported together in the data sources (Table 1 reports fresh only). This creates difficulties in interpretation, given the huge differences in weight of fresh and dried bananas and pineapples, and their different market orientations (dried is more likely to be exported than fresh), thus possible margins of error are significant.⁴

⁴ In our field studies, two out-growing companies were encountered, both processing and exporting dried fruit products. However, FFV was the focus of our research, thus our analysis did not extend to dried fruit.

Table 3: Production and exports of bananas and pineapples, Uganda, 2001, 2011

	Banana and plantains (fresh/dried)		Pineapples (fresh/dried)	
	2001	2011	2001	2011
Production*	10,415,000	10,204,750	1,703	1,998
Exports ('000 US\$)**	672	255	29	387
Exports (tons)**	1,336	637	42	2,299
% of produce exported***	0.013	0.006	2.5	115*

Sources: *FAO (2012); **ITC (2012); *** authors' calculation.

Nonetheless, Table 3 shows that the export orientation of bananas is very low and declining. The picture for pineapples is very different, with production rising slightly, but with the percentage exported estimated to have jumped from 2.5 to 115 percent of production. For reasons already noted, the data should be interpreted with caution. It is doubtful that different reporting timeframes for production and export data can account for such a dramatic rise in the share of exports. We return to this point in our discussion of the pattern of Ugandan exports below.

Further comparisons of the two countries reveal that, although production is much higher in Kenya than in Uganda, the difference in export revenues is even more striking. In 2011, Kenyan vegetables generated \$220.6 million of foreign exchange compared with \$4.7 million for Uganda. Unit prices of Kenyan exports rose by 63 percent between 2001 and 2011. Ugandan export prices have been more volatile (and lower than in Kenya), with prices 70 percent lower in 2011 than in 2001. Fruit production and exports are relatively less important than those for vegetables in both countries, and prices have declined slightly over the 10 years under review. Between 2001 and 2011, Kenyan fruit export revenues rose from US\$1.5 million to US\$4.9 million (2001-2011), and Ugandan fruit export revenues fell slightly from US\$1.09 million to 1.05 million. Hence, although the *share* of production exported is falling in both countries, absolute volumes and revenues from FFV exports continue to rise.

The summary data presented in Tables 1 and 2 obscure developments in particular FFV products. For example, although total fruit exports from Uganda were 3 percent lower in 2011 than in 2001, exports of certain fruits, notably pineapples, mangoes, avocados and guavas (mainly high-value products) increased from US\$37,000 in to US\$409,000 over the same period (ITC, 2012). This is important when considering supermarkets, which tend to source high-value agricultural produce.

2.2 Shifting patterns of exports: growing importance of Africa as export destination for Uganda and Kenya

An important feature of the export data is the shifting patterns of trade – away from the North towards other, emerging and developing, economies. This is particularly true for Uganda, which has been less successful than Kenya in exporting to EU markets. Tables 4 and 5 show that exports of FFV are shifting from the EU towards Africa, Asia and the Middle East, but at different rates (especially since the 2007 crisis). For Kenya, in 2011 the EU remained by far the most important export destination, especially for vegetables. Of total Kenyan vegetable exports, it accounted for 96 percent in 2001 and 92 percent in 2011, with the UK taking the majority. Kenya has been able to position itself as an exporter of niche products such as mange tout, fine beans and baby corn to European supermarkets. The relative decline in vegetable exports to the UK, however, is mainly complemented by a rise in exports to Africa, which increased from less than 1 percent to 4 percent over the same period.

Table 4: Changing pattern of Kenya exports, 2001-2011

Destinations of Kenya exports	Fresh vegetables (% value)			Fresh fruits (% value)		
	2001	2007	2011	2001	2007	2011
Africa	0.85	2.52	4.05	0.92	10.93	2.97
Asia	1.29	1.24	1.86	1.76	0.36	1.9
Middle East	1.27	0.98	1.31	29.14	7.05	41.44
EU 27 (excluding UK)	19.83	24.94	26.14	61.57	48.04	40.66
UK	76.3	68.8	66.0	5.07	21.03	8.31
Other	0.46	1.4	0.64	1.54	12.6	4.72
Total	100	100	100	100	100	100

Source: Calculated from ITC (2012).

Table 5: Changing pattern of Ugandan exports, 2001-2011

Destinations of Uganda exports	Fresh vegetables (% value)			Fresh fruit (% value)		
	2001	2007	2011	2001	2007	2011
Africa	0.53	73.31	76.18	0.83	19.59	63.76
Asia	0.00	6.03	0	0	0	1.00
Middle East	0.00	0.66	2.45	1.94	5.90	3.80
EU 27 (excluding UK)	14.10	5.15	3.40	79.35	58.72	14.90
UK	83.78	13.66	15.42	8.94	9.38	5.79
Other	1.59	1.19	2.55	8.94	6.41	10.75
Total	100	100	100	100	100	100

Source: Calculated from ITC (2012).

Having failed to export sufficient volumes to EU/UK markets, Uganda appears to have given up on the EU and is mainly targeting other African countries. Table 5 shows the increasing importance of SSA as a destination for Ugandan FFV, although export volumes are still far lower than Kenya's. In 2011, Africa had nearly replaced the UK/EU as an export destination for Ugandan FFV exports, and Asia and the Middle East are slowly becoming more important trading partners. Ugandan FFV exports to African countries rose from less than 1 percent of the total to 76 percent of vegetables and 64 percent of fruit exports in the decade from 2001. Uganda exports a small share of vegetables to Asia and Middle East (about 7 percent) but this is up from about 2 percent in 2001.

This shift towards African destinations reflects a rise in regional trade within SSA and within East Africa specifically. For example, the data suggest that Ugandan FFV exports to South Sudan have increased from US\$1,000 (2008) to US\$335,000 (2011); exports to South Africa and Kenya also rose (ITC, 2012). Uganda's exports of bananas and pineapples to Kenya and Rwanda provide another example of the shift from global to regional markets for Ugandan FFV. Historically, cross-border trade from Uganda to Kenya, Rwanda and the Democratic Republic of Congo (DRC) is common and, according to key informants, some is allegedly re-exported by Kenya (Evers et al., 2013a). Further exploration is needed to be certain that these data reflect real trends, rather than better data collection.

Table 6: Uganda regional exports of bananas and pineapples, 2001, 2011

	Banana and plantains (fresh/dried)		Pineapples (fresh/dried)	
	2001	2011	2001	2011
Exports to Kenya (tons)**	23	145	3	2,295
% total exports (volume)***	1.7%	22.8%	7.1%	100.0%
Export to Rwanda (tons)**	0	47	0	0
% total exports (volume)***	0	7.4	0	0

Sources: *FAO (2012); **ITC (2012); *** authors' calculation.

While the trends suggested by the data in the tables above are consistent with the findings from our field studies (discussed in more detail below), the estimates of volumes of production and trade are problematic. For example, Table 6 presents ITC estimates of Ugandan pineapple exports to Kenya, which are higher than production reported by the FAO. Pineapple exports are estimated to have jumped from 3 to 2,205 tons. ITC also reports that the volume of banana/plantain exports to Kenya has increased from 23 to 145 tons. These are small absolute volumes, but may be

indicative of changing trends in Ugandan FFV trade, with 23 percent of Ugandan banana/plantains exported to Kenya in 2011, up from 1.7 percent in 2001 (ITC, 2012). The data also suggest that Rwanda is an emerging market for Ugandan banana/plantain exports. Although no exports of pineapples to Rwanda are recorded, it was emphasized by Kenyan and Ugandan stakeholders that Ugandan bananas and pineapples were highly regarded as the most flavourful in the region, and that there was a significant amount of cross border-trade in these products that is unlikely to be captured in official trade data. As already noted, these data illustrate the need for further country-based investigation of the volume of production and trade, and do not indicate what percentage of FFVs are flowing through regional value chains, driven by African supermarkets. We explore this further in the next section.

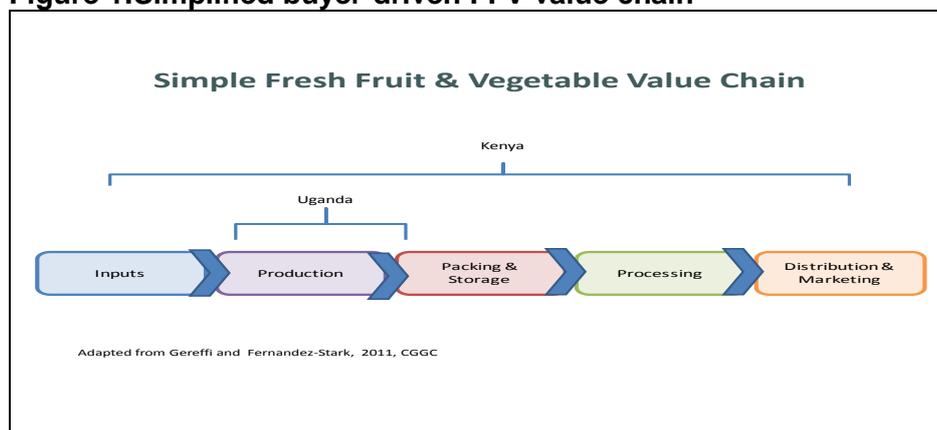
3. Global value chains and supermarket sourcing of fresh fruit and vegetables

The rise of global supermarkets has changed the nature of production, trade and retail of FFV. Supermarkets use different sourcing methods with different production requirements than more traditional arms-length export agents or local wet markets. Supermarkets differentiate themselves by using centrally coordinated distribution, competing on quality, price and proximity/convenience, with a consumer-facing orientation (Dolan and Humphrey, 2004; Humphrey, 2007; Vorley et al., 2007).

An important difference between a value chain and a traditional arms-length market is the degree of coordination and exercise of control along the value chain by lead buyers. Buyers' procurement practices are an important means of exercising control (without ownership) of the value chain and constitute an important aspect of value chain governance (Gereffi et al., 2005; Kaplinsky and Morris, 2002). We present a simplified picture of a generic FFV value chain below (Figure 1) and then consider the procurement practices in East African regional value chains.

Figure 1 is a stylized representation of the commercial FFV value chain. Different stages, or segments, of the value chain involve particular actors (e.g. workers, companies, smallholders, traders), and varying amounts of value are added at each stage – and captured by different value chain actors. The number of actors in each segment can range from a few to many, and may include out-growers (common to FFV GVCs). In more integrated chains, a single company may be engaged in several segments of a given value chain (e.g. production, processing and transport of FFV). In FFV value chains, supermarket buyers wield power through coordination and exercise of governance at every node, from inputs to production to final marketing. They also set and enforce standards, particularly in relation to producers and pack-houses. Their commercial power facilitates capture of a significant share of the value generated through FFV value chains.

Figure 1: Simplified buyer-driven FFV value chain



Source: Adapted from Gereffi and Fernandez-Stark (2011).

3.1 Governance and standards in global and regional value chains

Governance in GVCs refers to 'inter-firm relationships and institutional mechanisms through which non-market coordination of activities in the chain takes place' (Humphrey and Schmitz, 2001:1). Governance exerted by lead buyers over their suppliers is a means of exercising control (without ownership) of value chain processes (Gereffi et al., 2005; Kaplinsky and Morris, 2002). For supermarkets, this involves pre-programming (advance ordering) from preferred suppliers according to precise specifications based on application of standards determined largely by buyers. Private standards have multiplied rapidly with the advance of global sourcing as well as increasing concerns over food hygiene and safety.

Private standards have been particularly prevalent in agri-food value chains, where issues of food hygiene and safety are critical to consumer wellbeing. They do not displace, but often complement public standards (implemented by governments and/or multilateral organizations such as the EU) and are often more stringent. Many private standards are specific to individual buying companies (such as Tesco's Nurture); in addition, a number of private standards have been developed through alliances that can include companies, civil society organizations and others, such as GlobalGAP (Good Agricultural Practice), which is a key standard to be met by FFV producers.⁵ Standards have expanded to cover more than technical aspects of production, but can also include environmental and social issues (Barrientos and Smith, 2007; Nadvi and Waltring, 2003). The outcome has been the rise of a plethora of overlapping standards, with lack of agreement on definition and confusion on purpose (Henson and Humphrey, 2010). The rise of private standards has also led to a proliferation of certification, monitoring and auditing bodies, resulting in higher costs for producers seeking certification.

Our research on horticulture in East Africa identified different and overlapping 'packages of standards' operating at different levels of the value chain, depending on the supermarket buyer and whether they were located within country or in an export destination. These can be summarized as:

1. *Subjective standards*: standards related to fruit and vegetables that are not formally codified or checked through laboratory tests, but are based on visual and manual inspection and matched to different consumer expectations;
2. *Product standards*: standards that can be tested, such as those issued by a national bureau of standards and/ or an exporter association covering minimum residue levels (MRLs);
3. *Process standards*: include all of the above plus formal GlobalGAP certification, a minimum requirement for exports to the major global supermarkets;
4. *Social and environmental standards*: consist of GlobalGAP plus one of the ethical standards (e.g. codes of labour practice).

Larger producers often complain about the plethora of supermarket standards they now face, even though they are better positioned to meet them (Barrientos and Visser, 2012). Our interviews support findings of Henson and Humphrey (2008) that the distinction between different types of standards is often blurred. There is increasing overlap between private standards (demanded by

⁵GlobalGAP (formally EurepGAP until 2007) started as a buyer-driven initiative to ensure food safety standards were met by its suppliers, and evolved into a multi-stakeholder collaboration among buyers, producers and non-governmental organizations (NGOs). It establishes requirements for pesticide residue levels in produce (and animal welfare in livestock) as well as microbial food safety, and expanded to address social responsibility issues focusing specifically on worker health and safety (GlobalGAP Risk Assessment on Social Practices programme). See www.ngfn.org/resources/food-safety/introduction-to-globalgap-group-certification-option-2 (accessed February 2013).

buyers); socially driven standards (demanded by NGOs and trade unions) and public-driven standards (required by government bodies, including multilateral institutions such as the World Trade Organization (WTO) and the International Labour Organization (ILO)).

Certification under GlobalGAP requires smallholders to be organized (for group smallholder certification).⁶ Usually, this is achieved through being positioned as an out-grower to a larger producer, through a primary marketing organization (PMO) or as part of a cooperative or producer group (Homer, 2010; Vorley et al., 2007). Many studies have reported the barriers smallholders face associated with difficulties meeting the required capabilities, level of organization, costs of implementation and certification and subsequent exclusion from GVCs (Achterbosch et al., 2005; Dolan and Humphrey, 2000; Graffham and Cooper, 2008; Vorley et al., 2007). However, others have found examples where smallholders have been able to meet private supermarket standards and benefit from access to global supermarket value chains (Maertens and Swinnen, 2009b).

3.2 Concepts of economic and social upgrading and downgrading

In order to explore the implications for producers and workers of accessing GVCs, we use the concepts of economic and social upgrading or downgrading (Barrientos et al., 2011). *Economic upgrading* refers to processes by which producers (including small, medium and large farms) move from low-value to relatively high-value activities in GVCs; downgrading involves moving to lower-value activities. Economic upgrading can involve different components: *process* (changing how a product is produced), *product* (changing what products are produced) and *functional* (changing the activities undertaken). *Social upgrading* refers to improvements in the employment, income and wellbeing (entitlements and capability) of workers; downgrading involves a reduction in wellbeing. This is composed of measurable standards such as the nature of employment contracts (regular or irregular), wage levels and working hours. It also encompasses the enabling rights of workers, including lack of discrimination, gender equality and freedom of association (Barrientos et al., 2011; Elliot and Freeman, 2003). Social upgrading applies to workers on both large and smallholder farms.

Most analysis of economic and social upgrading is based on case studies, which provide insights but are not easily comparable across sectors and countries. Bernhardt and Milberg (2011) have examined trends in economic and social upgrading using more consistent macroeconomic data on trade and employment. Given limitations in the available data to measure changes in GVCs, they use a 'parsimonious' approach that provides proxy indicators. Economic upgrading is measured based on percentage increase in export unit value and a percentage increase in export market share. Social upgrading is measured as a percentage increase in employment and a percentage increase in real wages. They estimated levels of upgrading using UN ComTrade and related data sources for the period 1990-2009.⁷ For horticulture (defined as flowers, fruit and vegetables), they were able to obtain data to estimate economic upgrading for selected countries, but found insufficient data to estimate social upgrading (unlike other sectors such as apparel).

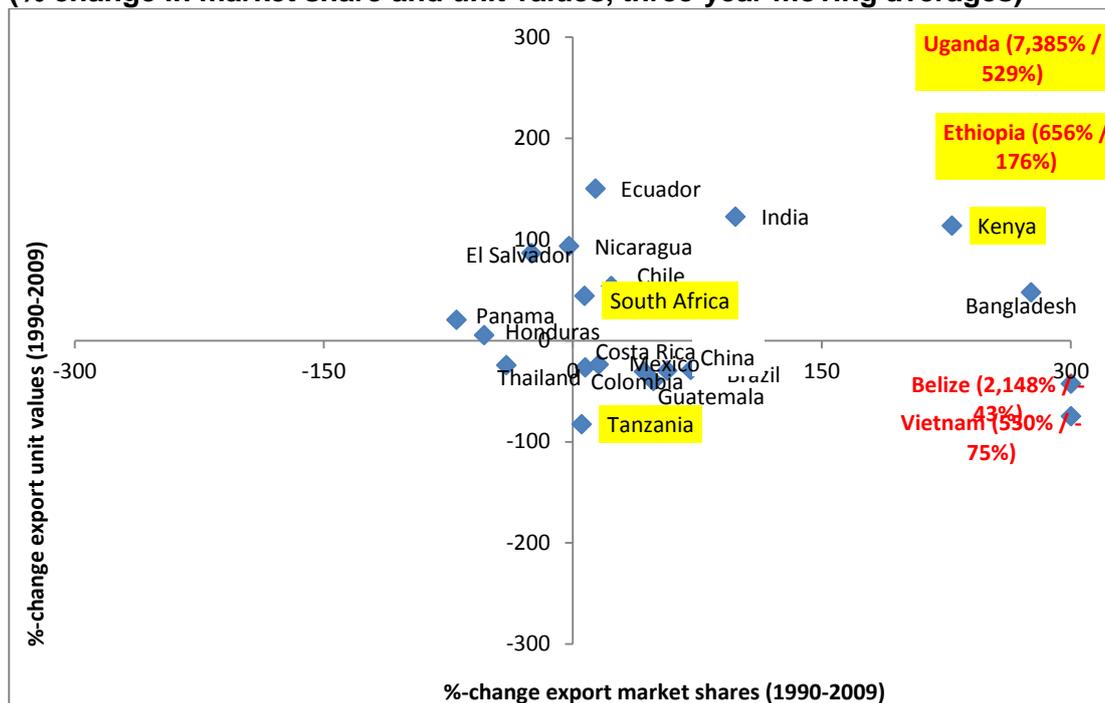
Their results for economic upgrading in horticulture are shown as a scatter plot in Figure 2. Countries lying in the northeastern quadrant are clear upgraders (experiencing improvements in both export unit values and market shares). Countries in the southwestern quadrant are clear

⁶ Complex sourcing arrangements involving marketing groups and farmer collaborations/associations made certification a complex process involving multiple suppliers. GlobalGAP developed a 'group certification approach' (Option 2). In 2008, 92,000 farms in 88 countries were certified, 74 percent under Option 2 (NGFN, 2014).

⁷ See Bernhardt and Milberg (2011) for a more detailed explanation of data sources and estimations. Also discussed in Milberg and Winkler (2013).

economic downgraders (experiencing decline in both measures of export performance). Countries in the northwestern and southeastern quadrants are intermediate cases (experiencing improvements in one measure but not the other). Within Figure 2, we have highlighted the estimations the authors carried out for selected African countries (from South and East Africa). It can be seen that Uganda, Ethiopia and Kenya have been success stories in terms of economic upgrading. However, it is important to remember that, as 'non-traditional' exporters, all these countries were starting from a very low base in 1990/93, and this includes flowers, which experienced very high subsequent export growth. South Africa, which has a longer history of horticulture export (despite trade embargos up to the early 1990s), also experienced economic upgrading, but with less dramatic increases based on these measures. Tanzania was an intermediate case.

Figure 2: Economic upgrading and downgrading in the horticulture sector, 1990-2009 (% change in market share and unit values, three-year moving averages)



Note: The first three years for Ethiopia are 1993-1995.
 Source: Bernhardt and Milberg (2011) illustration based on data from UN ComTradedatabase.

It was not possible using this method to estimate the implications for social upgrading in horticulture, given a lack of available employment and wages data for horticulture.⁸ However, the authors' findings for social upgrading in other sectors (apparel, mobile phones and tourism) were at best mixed; overall they found that 'employment growth has generally been associated with less-than-proportional growth or even decline in real wages' (Bernhardt and Milberg, 2011: 22). While their framework does not allow for a direct test of causality, in assessing the linkages between economic and social performance they found variations across sectors. They conclude that economic upgrading *can* but *does not necessarily* translate into social upgrading. More in-depth analysis is therefore needed to assess when and how this occurs.

⁸ This in itself is a research finding – better data are required in order to understand the position of workers in agriculture and horticulture.

3.3 Case study research methodology

The above focuses on economic upgrading as depicted through country export performance. However, not all exports are channelled through GVCs,⁹ and this measure does not pick up production for domestic value chains (also coordinated by lead buyers), where final goods are not traded across borders. Case studies and GVC mapping (including the rise of domestic and regional horticulture value chains) indicate a much more complex story than export performance alone reveals. Comparative case studies were undertaken in Kenya and Uganda to further examine the economic and social implications for FFV producers and workers supplying global, regional and domestic supermarket value chains. Here, we outline the research methodology used in each country, before presenting the findings for GVCs (Section 4) and regional/domestic value chains (Section 5). The findings presented in this paper also draw on parallel research undertaken on supermarkets within South Africa that operate in East Africa (Barrientos and Visser, 2012).¹⁰

3.3.1 Kenya case study: research methodology

Research was undertaken in Kenya between May 2011 and June 2012. The focus was on FFV value chain actors and did not include floriculture.¹¹ A mapping was undertaken of the FFV value chain, including links to global, regional and domestic supermarkets. Key informant interviews were carried out with 15 personnel from suppliers, NGOs, supermarkets, private export companies and government. Two case studies were selected for more in-depth research: (i) exporters/producers selling primarily to EU and UK supermarkets, where fieldwork consisted of 10 focus group discussions (FGDs) conducted with workers from five vegetable farms; and (ii) a PMO supplied by smallholders, selling primarily direct to Kenyan supermarkets. The latter case study involved two days of interviews and meetings with personnel in the PMO, and two FGDs with fruit farmers supplying the PMO. A regional research workshop was held in December 2012, attended by companies (suppliers and supermarkets), smallholders, out-growers, unions and government representatives. While the case studies are not representative of the sector, they provide insights into changes taking place in the global and regional/domestic value chains. We also drew on findings from two parallel studies in Kenyan FFV on which Capturing the Gains researchers were advisors. These provide more in-depth information on workforce development in the sector (Fernandez-Stark et al., 2011), and export of flowers and vegetables to UK supermarkets (Oxfam and IPL, 2013).¹² In addition, we drew on secondary literature for information on supermarkets, standards and producers and workers in the FFV value chain.

3.3.2 Uganda case study: research methodology

The research in Uganda was based on a value chain mapping, interviews and FGDs with horticulture producers, workers and other key informants in Uganda. These took place between September 2011 and July 2012. We held eight FGDs and interviewed 91 smallholders (41 women, 50 men); two smallholders' organizations (Hortexa (Uganda Horticulture Exporters Association) and the Horticulture Producers Organization of Uganda (HPOU)); five FFV traders and exporters; three out-growers; one commercial farm producing both vegetables and flowers (based in Entebbe); and five workers on this farm. Interviews were also held with government officials (Ministry of Trade, Cooperatives and Industry, Ministry of Agriculture, Uganda Export Promotion Board, Uganda National Bureau of Standards); donors (UK Department for International Development (DFID)), TradeMark East Africa (TMEA), Netherlands Embassy); and experts with

⁹ For more recent estimates of the extent of trade through GVCs rather than traditional arms-length markets see OECD (2013) and UNCTAD (2013).

¹⁰ All studies were undertaken as part of Capturing the Gains research. See www.capturingthegains.org

¹¹ See Gibbon and Riisgaard (forthcoming) and Oxfam and IPL (2013) for recent flower studies.

¹² The Oxfam and IPL (2013) study was carried out in 2011/12 and involved interviews with 136 farmworkers, 51 smallholders and 80 managers in Kenyan flowers and vegetable exporters.

donor-supported programmes (the Quality Infrastructure and Standards Programme (QUISP), the Agribusiness Initiative Trust); the Private Sector Foundation; two FFV procurement companies; and four Kenyan and South African supermarkets. Interviews were held in Kampala, Entebbe and Mpigi and Masaka districts in Central region of Uganda. The findings are not statistically representative of the sector, but provide insights into changes taking place within the global and regional FFV value chain in Uganda.

4. Global value chains: upgrading producers, workers and smallholders

4.1 Profile of Kenyan FFV

4.1.1 Trade and employment in horticulture

In Kenya, horticulture (including floriculture) accounts for about a quarter of gross domestic product (GDP) and is the fastest growing agricultural sub-sector, with 15-20 percent a year growth over the past decade (HCDA, 2012; Oxfam and IPL, 2013). Flowers are mainly produced by larger commercial farms for the export market, with a fairly small (5 percent) but growing proportion sold locally in outlets such as Kenyan supermarkets, florist shops and open air markets. As noted above, the majority (95 percent) of FFV are produced by smallholders for the domestic market. However, Kenya has established itself as a niche exporter of high-value products such as mange tout, baby corn and fine beans. Vegetables for export are produced mainly by larger farms, but smallholders are also involved through out-grower schemes, and by selling to traders and exporters. Global supermarkets tend to buy directly from larger commercial farms, which increasingly dominate the export sector, with the UK being a major export market for vegetables (66 percent of exports in 2011 but down from 76 percent in 2001).

Table 7: Estimated number of workers and smallholders in export of Kenyan FFV and flowers

	Category: smallholder/worker/dependent		
	Smallholders	Workers	Indirect/dependent
Estimated number	220,000*	70,000**	2,000,000

Note: *Fresh vegetables for export (2009).

** Mainly flowers for export (2010).

Source: Adapted from Kenya Flower Council (2014); Oxfam and IPL (2013).

There is a paucity of official data available on employment and number of smallholders in horticulture. We rely on industry bodies as a source of data for export horticulture, and data should be interpreted with care. The Kenya Horticulture Council estimates that total horticulture (including floriculture) for both the domestic and the overseas markets employs approximately 4.5 million people directly in production, processing and marketing. Another 3.5 million people are involved indirectly through trade and other activities.¹³ Thus, at least 8 million people are currently engaged. Estimates of the numbers directly involved in *export* of FFV and flowers are 2.29 million: 220,000 smallholders; 70,000 workers; and 2 million indirect workers and dependents (see Table 7).

4.1.2 Kenyan export-oriented producers

Kenya's expansion as a niche exporter of high-value produce has been well documented in the literature (e.g. Dolan and Humphrey, 2004; English et al., 2004; McCulloch and Ota, 2002; Neven and Reardon, 2004; 2006a; 2006b). Dolan and Humphrey (2004) document very clearly the structural shifts that took place in the sector from 1990s onwards as UK/EU supermarkets moved away from sourcing through traditional wholesale markets to direct sourcing from preferred suppliers. A few larger commercial farms were able to position themselves to take advantage of this shift. Economic upgrading included (i) process upgrading, including the adoption of a wide

¹³ See www.fpeak.org/khc (accessed April 2012).

range of process standards to meet supermarket quality requirements; (ii) product upgrading – selling semi-prepared and pre-packaged produce; and (iii) functional upgrading – vertical integration into logistics, freight and marketing in order to deliver direct into supermarket distribution centres (DCs) in Europe. Economic upgrading required significant capital investment and technical capacity, which many smaller firms were unable to undertake. This led to consolidation within the export sector and vertical integration, with some large exporters owning their own farms. By 2000, seven firms controlled 75 percent of all exports (Dolan and Humphrey, 2004). Expansion of European supermarkets had exclusionary implications for smallholders, with the ‘downgrading’ of many that had traditionally exported via brokers/wholesale markets. This partly reflected a concern by supermarkets that smallholders could not meet their standards, but also exporters’ concerns about the costs of monitoring smallholders (ibid.).

Table 8: Profile of largest FFV producer/exporters in Kenya (2011)

Company	Profile
Company A	<ul style="list-style-type: none"> • 200 ha flowers, 70% FFV turnover • 10,000 employees in Kenya • Flowers (many lines), beans, vegetables, large tea interest in Kenya • Largest of Kenya’s horticultural exporters • Vertically integrated –includes freight company and engages directly in export and marketing • Extensive corporate social responsibility (CSR) and certification standards including FairTrade
Company B	<ul style="list-style-type: none"> • 6 vegetable and 4 flower farms, 2,500+ ha, expanding to Ghana • 5,000+ employees in Kenya • Green beans, various other exotic vegetables, roses (and #1 Kenyan seed/graft operation) • Extensive smallholder out-grower involvement (2,000+ farmers), prior CARE pilot • Vertically integrated including pack-house, freight, marketing, seeds • Extensive CSR and certification standards including FairTrade
Company C	<ul style="list-style-type: none"> • 5 owned farms, 200+ha in Kenya, 500ha in Tanzania • 1,800 permanent employees; 4,000 on contract • Green beans, other vegetables, avocados and exotic fruit, flowers • Works with 1,000+ smallholders • Vertically integrated, group includes pack-house facilities and a freight company • Some CSR and 15 certification standards
Company D	<ul style="list-style-type: none"> • 5 owned farms, 400ha • 1,500 employees throughout Kenya • Green beans, various other exotic vegetables, spices, broccoli, carrots • Indigenous management • Investing in pack-houses, out-growers outside Nairobi • Some CSR and certification standards

Source: Adapted from Oxfam and IPL (2013).

A summary profile of four of the largest current producer/exporters of FFV is provided in Table 8. Some large export farms focus solely on flowers and are not included here. It should be noted that three farms in Table 8 produce both flowers and fresh vegetables for export; they have functionally upgraded in the value chain (vertically integrated) to include activities such as freight and marketing). Large commercial farms concentrate primarily on export and sell very little domestically – mainly to high-end hotels and supermarkets if at all (Oxfam and IPL, 2013).

Smallholders that remain in the GVC are largely organized into out-grower schemes by larger exporter/producers and exporters. Smallholder organization became even more important with the introduction of EurepGAP (later GlobalGAP), for which smallholders were required to apply under group certification, as noted in our discussion of GlobalGAP above. Oxfam and IPL (2013) found that export companies supported smallholders that were able to focus exclusively on exports better than those selling to more diverse markets/buyers. Those focused exclusively on exports had inputs supplied, with technical assistance provided; prices were communicated in advance and payments made promptly. Farmers with a broader spread of customers tend to be provided with seeds only. Compared with waged workers, export smallholders make a better living and enjoy greater food security – although their income must usually support an extended family living and

working on the land. Oxfam and IPL (2013) found that slightly over two-fifths of the smallholders for whom they collected income data said they earned more than US\$1,379.3 a year. More than a fifth earned two or more times that level – although just over a quarter of earnings came from secondary sources.

Smallholders supplying the export market face new opportunities with the opening-up of regional trade and growth of Kenyan supermarkets. This and rising prices contributed to a growth in ‘side selling’ in 2012 (authors’ interviews). Many smallholders that were linked to exporters, from which they had received seeds and other inputs, sold their produce for a higher price to other brokers moving in to take advantage of changing market conditions. Oxfam and IPL (2013) interviewed one exporter who had lost 60 percent of his procurement to sideselling. However, for the smallholders, these short-term gains could be outweighed by longer-term costs, as exporters are less likely to advance future support to unreliable smallholders.

The rise of alternative markets, as well as other pressures such as climate change and water shortages, poses potential risks to the resilience of GVCs. As a result, European/UK supermarkets want to strengthen their supply chain relationships in Africa. For example, in March 2011, the Kenyan press reported that UK supermarket Sainsbury’s met with its African producers in Nairobi in order to encourage closer relationships in its fresh produce supply chain (from which it procures £300 million per annum) and to discuss the global future of food and farming. The Fit for the Future conference sought to explore some of the key social, environmental and economic issues facing the supply chain, such as balancing future supply and demand sustainably, biodiversity and crop and water availability.¹⁴ Key informant interviews indicate many UK supermarkets are also concerned and hold events (if less publicized) for similar reasons on a regular basis.

4.1.3 Kenyan workers

Expansion of larger commercial export farms and the rise of standards have had two effects on employment within the sector. First, they have increased demand for wage labour (often casual); second, they have increased the need for more skilled labour to sustain economic upgrading (Fernandez-Stark et al., 2011). Generally, horticultural is a labour-intensive industry with high demand for unskilled labour, trained supervisors and professional managers. The expansion of large commercial farms in Kenyan horticulture over more than three decades has led to the creation of a pool of waged labour that has seen daily rates for unskilled labour increase threefold over the past decade, from an average US\$1.2 per day in 2001 to more than US\$3 per day in 2011. Compared with other countries in East Africa, Kenyan unskilled labour attracts higher remuneration, but is also more productive (KHCP, 2012). While there has been some move towards more permanent employment, much employment in FFV remains casual, much more than in flowers, where there has been a shift from temporary to permanent employment (authors’ interviews). This is partly because demand for FFV is more volatile than it is in flowers, with tighter industry margins, so vegetable farms tend to hire more short-term labour and pay lower wages than on flower farms. Pack-house workers are more likely to have permanent contacts than farm labourers because they require a degree of skill to dispatch orders quickly and accurately. Senior staff – such as farm, human resource and financial managers – on large export farms are nearly always hired on permanent contracts.

Our fieldwork indicated that the FFV industry appears to be employing more literate workers than in the past. Although workers said no qualifications were required for their jobs, they had to be able

¹⁴) See www.ntv.co.ke/News/British+retailer+partnering+with+local+producers/ accessed May 2011.

to read and write. Participants in FGDs indicated that the more educated female workers were likely to become supervisors, and that one needed secondary education to be employed as a quality controller or recorder in the pack-house. According to female workers, '*There is promotion for only those who are learned [...] only for those who have certificates*' (authors' interviews). Our findings are corroborated by Oxfam and IPL (2013), which found no shortage of unskilled labour available to horticulture farms, but that some farms now required minimum educational qualifications. Managers reported unemployed workers were available daily at the gates, but that there was high staff turnover, which they attributed to wages being eroded by inflation. They also reported increasing recruitment and training costs.

Horticulture is a highly feminized industry providing casual and contract employment. An estimated 70,000 workers are directly employed in export horticulture (including floriculture), and the majority are women. Two-thirds of the green bean workforce in Kenya are women. Employment in commercial farms and on smallholdings is segmented by gender. Women's tasks are usually planting, weeding, picking (harvesting) on the farm and cleaning, stringing, grading and labelling in the pack-houses. These are especially arduous tasks, and require long periods of bending and careful handling of plants. Although this is officially called semi-skilled or unskilled work, these tasks are critical to the quality of the final product. Men, on the other hand, tend to work in the crop development unit (CDU) (e.g. spraying and soil fumigation) and construction, which not only demand greater physical effort but also require relatively skilled labour.

Our research on export farms indicated that there had been some social upgrading in the horticulture industry over the past 10 years. Increased availability of skilled workers has been aided by improvements in net enrolment ratios (NERs) in schools from 2005 to 2009 owing to proactive education policies in Kenya. Employment and gender equality legislation have also helped improve the position of workers, particularly women. However, permanent workers experience more significant upgrading than casual workers. FFV workers interviewed complained their conditions were not as good as those experienced on flower farms, where a much higher proportion of workers are now employed permanently.

Most of the workers reported that measures had been put in place to improve their working conditions and generally expressed satisfaction with the health and safety (H&S) arrangements at work. Safety improvements partly reflect GlobalGAP certification, which is strict on this and regularly audited. The formation of H&S committees has made it possible for workers to demand their right to protection at the workplace. There are dispensaries/health care units at all five farms in our study, and workers are provided with personal protection equipment (PPE). However, some workers expressed concern about the quality and frequency of provision of PPE on their farm. They said that only workers in the CDU received PPE on an annual basis; the rest of the workers were not given PPE regularly.

Relations between workers and supervisors have been problematic in the past; although this is still an issue, we found that there had been significant improvement. About a decade ago, supervisor abuse was identified as one of the key issues leading to workers' rights violations (Dolan et al., 2003; Hale and Opondo, 2005). Thereafter, there were concerted efforts to curb supervisor abuse (e.g. through Guidelines in the UK Ethical Trading Initiative (ETI) Supervisor Training Manual), and this appears to have borne fruit. Oxfam and IPL (2013) also found that the emergence of welfare committees, anti-sexual harassment policies and trade unions was helping eliminate abusive practices.

The provision of maternity leave is an example of social upgrading on Kenyan FFV farms. Ten years ago, workers were entitled to only one month of maternity leave, and were expected to forfeit their annual leave in lieu. Permanent employees are now entitled to three months of paid maternity leave plus one month of paid annual leave. One company extends this leave to seasonal employees, although this is recovered when they resume employment.¹⁵ On the same farm, men are entitled to paternity leave of 14 days.¹⁶ Other positive changes for women workers include breastfeeding time for lactating mothers and lighter duties during pregnancy.

While there has been tangible social upgrading on some aspects of working conditions, there are other areas where there has been less social upgrading and some downgrading, particularly for casual workers.

In terms of wages, our research indicates that, although nominal wages have increased, they have not kept pace with inflation – hence real wages have declined. The factors behind higher nominal wage rises include employment legislation, unionization, civil society campaigns and FairTrade certification. Oxfam and IPL (2013) calculated a ‘living wage’ for Nairobi to be US\$120 monthly, well above the minimum wage or the wages of most FFV workers in either study.¹⁷ Among the workers interviewed in our research, wages were well below, ranging from US\$41.40 to US\$85.10 per month depending on employer, type of contract, period of service and whether or not housing was provided. All workers interviewed reported that their wages were not enough to meet the high cost of living, and the majority had children in school but were unable to pay school fees. According to one woman worker,

It is not enough because someone like me receives US\$73.60 per month. I am a single parent. Clothing, feeding and paying school fees for my two children in secondary school and two others in primary school becomes very difficult [...] We are persevering because we do not have any other means to survive. I prefer earning the [US\$73.60] than doing nothing.

Many workers take on other income-earning activities, such as engaging in petty business or providing their services for a fee, given that wages on FFV farms are not sufficient to cover their expenses. According to one female worker,

When I have my off day I look for people who will employ me to clean their clothes and do their household chores for money. The senior staff on the farms will have clothes for me to clean. When I earn US\$0.57 from cleaning clothes, I know it will be enough to buy a kilogram of maize flour. I prefer doing house chores instead of moving around the estate looking for men who will give me money in exchange for sex.

Oxfam and IPL (2013) found that, in general, workers on farms producing flowers (or both flowers and FFV) received higher wages than workers on farms producing only FFV. Their survey indicated beans workers received around US\$2.10 per day, equivalent to US\$55 per month. The lowest wages were paid to casual labourers working on small farms – US\$1.50 per day, plus lunch – for a few days’ work.

¹⁵ Seasonal workers are required to forfeit annual leave to make up for days taken for maternity leave.

¹⁶ A requirement of national legislation, so this farm is legally compliant, which is commendable, given that other companies have not followed suit.

¹⁷ The legal minimum wage for unskilled agricultural workers was US\$43.3 per month; in the industry, the Collective Bargaining Agreement between employers and the trade union specified a minimum wage of US\$55.20 per month.

Although there has been some move towards the use of permanent workers in horticulture, this is more often in floriculture than on FFV farms. Indeed, the use of casual labour in FFV is still common. We found that many FFV workers had been employed for five to 10 years on the same farm, but were either on one- or three-month contracts or employed as seasonal workers with a two-month unpaid break before being re-employed. These rolling contracts are reminiscent of the flower industry in the late 1990s. According to a female seasonal FFV worker we interviewed,

You are given a contract of eight months or six months or one year. Then, when there is less work on the farm, you will be terminated for some time. After sometime you will be recalled back to renew the contract. At that time you will be treated as a new worker.

Job insecurity still persists, despite the Employment Act (2007), which stipulates that employees who work consecutively for three months on a casual basis should be contracted as permanent employees thereafter. Many FFV workers complained of the lack of job security. A female worker explained the difference between employment contracts,

The difference is job security. The permanent ones have job security [...] The seasonal workers sign a monthly contract. They have a monthly renewal for six months. They are discontinued in case there is no work.

Sexual harassment has significantly reduced on the farms according to the workers interviewed, although it has not been eliminated. A female worker discussed this in our FGDs,

We go through a lot. A woman at 35 years is someone very mature but who will go through a lot of challenges at work. You will hear someone telling them 'teremshabendera' [pull down the flag] to pull down their underwear. Yet you are not the kind who is involved in such behaviour. When you decline the proposal, you will always be in trouble at the work place. You will never have freedom. There is no one who is 100 percent perfect but any small mistake you do will be regarded as a very big one just because you didn't pull down your underwear. Things that should be taken very lightly will always cause you problems just because someone was selfish and wanted to use you.

Other forms of gender discrimination also persist on the farms, according to women workers. A woman worker on one farm reported that women were not treated as well as men: they are more harassed than their male counterparts if they are late; also, when they reach their production targets earlier than expected they are not allowed to leave, unlike male workers. It also appears difficult for workers to obtain promotion, although there is greater transparency, with vacancies being announced on notice boards that are accessible to most workers. However, some workers felt promotion was based on tribalism, bribery and sexual favours (authors' interviews). Oxfam and IPL (2013) also reported stories from community members suggesting that instances of harassment by supervisors still persist, although they are less common than in the past.

With respect to unionization, our research found that management appeared apprehensive. Even where workers are registered union members, though, they are not aware of their rights. Workers indicated that the management discouraged active union participation where workers were unionized. For instance, on one farm, workers said that, since the management did not support union activity, the union was not effective and shop stewards were afraid to defend a worker who had a disciplinary case before the management, because effective shop stewards tend to lose their jobs in unclear circumstances. Instead, management encourages worker committees, over which

they have more control. The workers felt there was a need to educate the management on the merits of unionized workers. Oxfam and IPL (2013) found that unionization and collective bargaining agreements (CBAs) were becoming more common in the floriculture industry. Out of 135 farms, 60 have now implemented CBAs. However, representation is relatively poor among green bean farm workers, and CBAs are absent on vegetable-only farms. Only on farms where both flowers and vegetables are grown do vegetable workers benefit from unionization.

4.2 Uganda: economic and social upgrading in FFV

The vast majority of Ugandan FFV is produced by smallholders, mainly for own consumption or wet markets. Of the 2-3 million smallholders who produce FFV on a commercial basis (Ssemwanga, 2010), it is estimated that a very small proportion, a few hundred at most, supply FFV to regional supermarkets through PMOs (cooperatives or out-grower schemes). Many smallholders also sell to traders/middlemen, who resell to other traders and/or to supermarkets as well as other outlets (authors' interviews). All the large horticulture farms in Uganda are floriculture exporters, but a few also grow FFV for African markets. As we discuss in Section 5, one of these large farms is the top preferred supplier of FFV to all of the regional supermarkets in Uganda. There are several hundred smallholders organized through Hortexa and HPOU. However, for the most part, they sell to local markets or to traders who export to the UK/Europe and East Africa; some sell directly to wholesalers in Europe. According to key informants, there is fluidity between different supply channels (traditional market trade, unofficial cross-border trade, domestic wet markets, supermarkets, wholesalers and out-growers).

4.2.1 Ugandan export-oriented producers

The most successful export-oriented medium and large horticulture farms in Uganda produce floriculture products (flowers and cuttings) only and almost entirely for export to the UK/Europe and Asia. Among the 15 or so floriculture exporters in Uganda, we encountered two medium-sized farms that also produced FFV. One of these exported to European and African regional supermarkets and other destinations.¹⁸ The other type of export-oriented producers comprised out-growers who had been able to expand their production operations through establishing outsourcing arrangements and smallholders through PMOs and/or cooperatives. One out-grower was a Ugandan-owned company, managed by an owner-farmer with 100-200 smallholders. This company had become a successful exporter of FFV (including organic and dried fruit) to wholesalers and niche markets in Europe/the UK and the Middle East. This company was not the largest but was among the top 10 Ugandan exporters/traders in terms of volume. The other successful out-grower interviewed was a European-owned company, focused exclusively on traditional European/UK export markets. This company was previously a cool chain freight company with its own planes flying from Entebbe to Europe (specialized in fresh fish). The company functionally upgraded (vertical integration) and diversified to FFV production through outsourcing arrangements, which were managed by an experienced Ugandan farmer/trader.

The third category of producers supplying FFV to export markets comprised independent smallholders (selling individually to traders or organized in PMOs or cooperatives). Among them, those reporting sustained success in exporting were all relatively well off, with sufficient resources to enable them to rent land from other smallholders and expand their production lines to include Hass avocados as well as mangoes and pineapples suited to European consumers. A few, including Hortexa and HPOU members, had been exporting to European wholesale buyers and niche 'ethnic' markets. Some reported a limited degree of success in exporting but none of the

¹⁸ Horticulture exporters benefit from tax holidays if they export more than 80 percent of their produce, so reporting on FFV sales by floriculture farms needs to be considered in this light.

independent smallholders we interviewed supplied (knowingly) to supermarkets. In the past five to 10 years, many have switched to cultivation of chilies (red and green) for export, a relatively high-value product.

In the past five years prices have gone high; for example, a box of hot pepper used to fetch US\$1.15-1.92; now it fetches approximately US\$ 6.25 (Woman farmer, Mpigi, 2012).

While there have been some short-term gains in exporting for small farmers, most of those we interviewed (apart from Hortexa) did not see this as a sustainable route to increasing their incomes (discussed below). More than half of the smallholders interviewed sold to traders, and few knew the final destination of their products. Most felt they did not get a fair price but said they had no other channel for selling their products, since they lacked transport and storage facilities. On the whole, smallholders reported that they had experienced hardships in trying to reach these traditional export markets. It was commonly reported that European buyers were unreliable, failed to pay on time and often failed to pay at all for produce supplied. Demand from Europe also declines regularly during Uganda's prime harvest season (the European summer).

Export-oriented smallholders and out-growers reported that they could not access technical inputs to enable process upgrading. Indeed, several farmers reported crop losses associated with the purchase of inferior seeds, lack of agricultural extension for export products, lack of marketing information and weak marketing skills. According to key informants, smallholders lack basic information practices for chilies and passion fruit, as well as basic technologies for irrigation, fertilization, harvesting and storage. In a large project area designed to promote increased FFV production among groups of smallholders, commonly cited examples of the challenges facing smallholders included the following:

- Farmers planting virus-ridden seed (peppers), of poor quality and vulnerable to virus attack;
- Peppers abandoned and focus turning to passion fruit, but using poor techniques, e.g. wire that scorches the vines; watering through bottles in the heat of the day, burning roots, etc.;
- Passion fruit sprayed with a chemical that is banned in Europe; smallholders were not advised on alternative acceptable chemicals;
- Seasonality – demand/prices being high in winter and low in summer.

Even the smallholder/out-growers who were more successful in supplying European markets (including those mentioned above) experienced uncertainty, mainly due to sideselling by their smallholders (also noted above in relation to Kenya) and lack of trust in out-grower–smallholder relationships (discussed further below).

4.2.2 Workers

There are two main types of employment on FFV farms in Uganda: regular waged employment on relatively large farms producing floriculture products entirely for export (reported in official statistics); and casual, seasonal labour on smallholdings (not reported). There are no up-to-date estimates of the number of workers engaged in production of FFV. The majority of work is done by geographically dispersed smallholders employing casual labour as well as unpaid family labour. Secondary sources estimated that, in 2005, about 30,000 workers were employed in five value chains, covering hot pepper, onions, pineapples, passion fruit and vanilla (Achterbosch et al., 2005; Aliguma and Nyoro, 2004). This includes those working as waged or daily workers in marketing and employment in supermarkets (Achterbosch et al., 2005; 2007). The majority of workers were employed by assemblers and wholesalers (15,900), retailers (11,700) and

processors (2,400). Among the four main exporters in 2004 (Sulma Foods, Ice Mark, Amfri and Fruit of the Nile) were fewer than 100 employees (Achterbosch et al., 2005; 2007). Many jobs were in small-scale micro enterprises employing a handful of casual workers each. These numbers are very likely to have increased since these studies were done, as FFV production has increased substantially. Interviews with key informants suggest that increased employment along the value chain is most likely to have been among traders and casual production and processing workers, as well as unpaid farm labour, especially women.

Most of the waged horticultural workforce are employed in floriculture (approximately 6,000 workers). Floriculture requires a more skilled workforce than FFV, and labour productivity is higher than in FFV production. In 2012, we interviewed one of two medium-sized farm supplying FFV for export and regional supermarkets. This farm employed a total of 400 workers (about 70 percent women) producing both flowers and FFV; among the total farm workforce, approximately 60 workers were engaged in FFV production (down from about 90 in 2007).¹⁹ Although this farm was the most successful preferred to supplier of FFV to regional supermarkets, the share of the workforce in FFV production (compared with those working exclusively in flowers) had declined significantly, from 35 percent in 2007 to 15 percent in 2012.²⁰

We did not interview these workers separately for the FFV case study, although we did hold FGDs and interviews with flower worker and managers, including those from this farm.²¹ We found there had been significant social upgrading of workers on floriculture farms, including those also producing FFV. Social upgrading consisted of improvements in working conditions (contracts, H&S, maternity leave, child care, paid overtime) and increases in nominal wages, but not all workers benefited from an increase in real wages. Taking inflation into account, for the lowest paid workers, who were mainly women, real wages remained stable, in the range of US\$1 a day. Similar to Kenya, workers on farms producing both floriculture products and FFV benefit from the comparatively high wages and improved working conditions driven by factors specific to the floriculture value chain. This includes NGO advocacy directed at European buyers; implementation of social standards among European supermarkets; trade union bargaining and NGO advocacy in Uganda; and, to some extent, economic upgrading to higher-value floriculture products (cuttings), which require a more skilled and respected workforce.

All other workers in FFV production were casual workers with few benefits and little job security (apart from unpaid family labour). Employment on small farms producing FFV consisted of temporary seasonal labour, paid by the job or by the day, and mainly young men from the locale, as well as some internal migrant labour. Our interviews with smallholders in Mpigi and Masaka suggested that, in some districts, the use of casual day labour on smallholdings may be on the increase as volumes of marketed produce rise. Casual workers tend to be young men from the locale. Daily wage rates for casual labour are rising. The daily rate for young males is a minimum of around US\$1.90, which is nearly twice the rate paid to the lowest paid flower worker (about US\$1 per day). However, this is changing with the increase in the number of migrant workers from poorer parts of Uganda (discussed below).

¹⁹ Between 2007 and 2012, the total workforce (floriculture and FFV) on this farm increased from approximately 160 to 340 workers.

²⁰ We were unable to confirm the reason for this decline. However, in view of the increase in supplies of FFV to supermarkets by this farm, it is reasonable to suggest there may have been a significant increase in FFV productivity. This requires further exploration.

²¹ Discussion of FFV workers draws on Evers et al. (2013b), for which interviews were held with 48 flower workers (29/19 female/male), four civil society key informants, four human resource managers and six floriculture farm managers/managing directors (all male).

4.3 Summary

Comparing Kenyan and Ugandan FFV and flowers, we find that both have experienced economic upgrading within the GVC. However, much of this export success is dominated by a small number of large commercial companies (often expatriate). Flowers have proved more advantageous than FFV for economic upgrading, mainly because of higher margins and less seasonal variation. Kenya in particular has positioned itself as a major exporter of cut stems. Uganda has repositioned itself as an exporter of cuttings in order to maintain its competitive position within the value chain. At export level, some larger flower farms in both Kenya and Uganda also produce FFV. However, Kenya also has dedicated export FFV farms, which we did not find in Uganda. Upgrading has also taken place among dedicated FFV producers, but Kenya has experienced much greater success than Uganda. However, smallholders have found it difficult to access global supermarket value chains, except where they are well organized and supported as out-growers or by PMOs. Kenya has been more successful on this than Uganda, the latter FFV exporters supplying mainly ethnic markets rather than supermarkets abroad.

In terms of social upgrading the picture is more mixed, but there have been some positive outcomes for workers. In both countries, women constitute the majority of the workforce, and bring skills that are critical to upgrading in a context where there is pressure obtaining skilled labour. Social upgrading is clearest in flowers in both Kenya and Uganda, where there has been a shift from temporary towards more permanent employment. In both countries, women constitute the vast majority of flower workers, and have experienced significant reductions in levels of sexual abuse and harassment. Many flower farms in both countries are now unionized and part of CBAs.

FFV workers have experienced some gains, but not as great as in flowers. Many FFV workers remain on temporary contracts, with less employment security and lower levels of unionization. Sexual harassment has also reduced, but still occurs for temporary workers. Both flower and FFV workers have experienced improvements in nominal wages, but this has not kept up with inflation, and real wages are below a living wage for most workers in both countries. An important factor in achieving social upgrading in both countries has been the role of private, social and public actors. This has included campaigning by local and international civil society organizations and trade unions, global supermarket buyers insisting on compliance with their codes of labour practice, support and training programmes by multi-stakeholder organizations such as the UK's ETI, and reform of labour laws to enhance workers' rights. Campaigns have been more targeted in flowers than in FFV, and it is noteworthy that the former has experienced greater social upgrading.

Case study findings help confirm and flesh out Bernhardt and Milberg's (2011) results on economic upgrading based on aggregated export data alone, and supplements their findings by providing information on the implications for social upgrading. While there is an overall positive picture of the links between economic and social upgrading, these findings also bear out the authors' overall conclusion that economic upgrading does not automatically lead to social upgrading. Private governance, social advocacy and public policy also play important roles.

5. Regional value chains: supplying Kenyan and Ugandan supermarkets

Much of the focus on economic and social upgrading has been on *global* value chains. As we have seen, larger commercial firms are best positioned to upgrade in GVCs, while smallholders in Kenya have struggled (except as out-growers or under well-positioned PMOs) and in Uganda have largely failed to gain access to global supermarkets. However, the supermarket terrain is changing, with the expansion of supermarkets within SSA, including in Kenya and Uganda. While there are

differences, regional supermarkets operate under similar principles, including requirements on standards and volumes. The question then arises as to whether their expansion will also serve to further exclude smallholders from domestic and regional value chains, or could they provide an alternative to global supermarkets as a means of value chain access? In this section, we examine this question further based on our case studies in Kenya and Uganda, then consider the overall implications for upgrading in global, regional and domestic value chains in the subsequent section.

5.1 Supermarket expansion within SSA

Within developing countries, Africa has been identified as part of the *third wave* of supermarket expansion (except for South Africa), following *first and second waves* in Asia and Latin America (Reardon et al., 2003; Weatherspoon and Reardon, 2003). Supermarkets are well established in South Africa, where they now account for the majority of food retail (Deloitte, 2011). The South African retailer, Shoprite, led the rise of supermarkets across SSA, starting with one store in 1995, increasing to 71 stores in 16 countries by 2011.²² Initially, the expansion was in countries bordering South Africa, but it has since continued in West and East Africa (including Uganda, Malawi, Tanzania and Zambia). As shown in Table 9, Shoprite is now ranked 92nd of the world's retailers by Deloitte (Deloitte, 2011). A significant change in the African supermarket sector was the acquisition in 2011 of a 51 percent share in the South African company Massmart Holdings Ltd by the US retailer Wal-Mart. Massmart has stores under its different company names in 14 countries across SSA. Its acquisition by Wal-Mart doubles the number of countries with Wal-Mart outlets to 28 globally. Game, which is part of Massmart, has outlets in Uganda and is planning to open up in Kenya (Maylie, 2012). Until recently, Massmart did not sell fresh produce. However, it has begun to do so in South Africa, and industry informants suggest it is likely to venture into fresh produce retailing across SSA.

The share of FFV in total supermarket sales varies considerably between countries, and is usually less than that of processed food products. In South Africa, supermarkets account for an increasing share of FFV retail, rising from about 30-40 percent in 2000 to 50-60 percent of fruit sold in 2012 (Barrientos and Visser, 2012). Outdoor/wet markets still account for the vast majority of fresh fruit and vegetable sales. In Kenya, supermarkets account for about 20 percent of urban food sales but only 4-5 percent of total FFV (Neven and Reardon, 2006a; Tschirley, 2010). In Uganda, there are no estimates of total food and FFV sales through supermarkets, but key informants suggest it is lower than in Kenya, so it is unlikely to be much more than 1 percent. In many countries, a higher proportion of processed food than fresh food is sold through supermarkets, as consumers are more resilient to moving away from wet markets for purchase of FFV (Humphrey, 2007). FFV is estimated to account for at least one-quarter of the total quantity of food products handled by regional supermarkets compared with less than 5 percent in domestic supermarkets (Elepu, 2006). Nevertheless, regional supermarkets are emerging as new channels for FFV. All major supermarkets in Uganda reported FFV sales were growing by about 25 percent per year in 2011 and 2012, and they see this trend as likely to continue across East Africa (authors' interviews).

Within Kenya, supermarkets have become well established, particularly in the main cities of Nairobi and Mombasa. The three largest supermarkets, Nakumatt, Tuskys and Uchumi, are dominant and all Kenyan-owned. Foreign supermarkets have (to date) shied away from Kenya, as the market is well served domestically and other African countries provide newer opportunities (authors' interviews). Nakumatt is the largest, established in 1987; in 2012 it had 36 outlets, not only in Nairobi and Mombasa but also across Kenya and East Africa. Nakumatt established its first

²²See www.shoprite.co.za

regional branch in Rwanda in 2008, followed by stores in Uganda (2009) and Tanzania (2011). It has or plans further outlets in Uganda, Ethiopia, Tanzania, Rwanda and (prior to internal strife) South Sudan.

In Uganda, the largest supermarkets are South African- and Kenyan-owned (smaller domestic companies also operate). In 2000, the first foreign supermarket, Shoprite, opened one store in central Kampala. By the end of 2011, the total number of regional supermarket branches had risen to 17, with the 3 Kenyan retailers behind much of this growth (Table 10). This expansion is taking place through new investments, particularly in large, modern shopping malls, and through the acquisition of Ugandan supermarkets. In 2010, Nakumatt purchased Payless (three branches) and

Table 9: Global and regional supermarkets operating in Africa (2010)

Supermarket	Country of origin	World retail ranking*	Total countries operating	Group revenue (US\$ million)
Wal-Mart	US	1	16	421,849
Shoprite Holdings Ltd	South Africa	92	16	10,362
Massmart Holdings Ltd	South Africa	126	14	7,589
Pick n Pay Stores Ltd	South Africa	133	8	7,212
Woolworths Holdings Ltd	South Africa	222	16	3,704
Nakumatt	Kenya	n/a	4	350**
Tuskys	Kenya	n/a	2	193**
Uchumi	Kenya	n/a	3	104**

Note: * Ranking of all retailers.

** Revenues for 2007.

Sources: Deloitte (2011); Dihel (2011).

Tuskys entered the regional value chain in Uganda with the purchase of four outlets from Good Price and Half Price. All the supermarkets are expanding beyond the urban centre to the outskirts of Kampala. However, Uchumi is the only one to have ventured out of the capital area. It has established a supermarket in Gulu, Northern Uganda, former centre of the Lord's Resistance Army and 350 km north of Kampala and about 100 km from the South Sudan border.

Some reports claim that the current climate in Uganda favours foreign retailers. Access to cheaper credit and the longer-established reputation of Kenyans and South Africans are advantages in the retail market. The regulatory and investment climate is considered more beneficial to foreign investors and exporters than to Ugandan retailers selling to the local market.²³ It has been suggested that Ugandan supermarkets do not benefit from tax holidays and rebates available to foreign retailers through the Uganda Investment Authority investment initiatives to promote foreign investment. News reports suggest Ugandan retailers, which tend to be small and with little working capital, are reliant on banks where interest rates are high, often more than 20 percent per annum in 2011/12 (Namono, 2012). Our interviews with exporters and Ugandan farmers corroborate this, reporting that real interest rates ranged from 20 to 30 percent in Uganda – slightly lower than in Kenya (18-20 percent).

²³See <http://www.trademarka.com/>

Table 10: Regional supermarkets operating in Uganda (2011)

Supermarket	No. of stores
South African	
Shoprite	3
Kenyan	
Nakumatt	5
Tuskys	5
Uchumi	4
Total	17

Note: Woolworth and Game also operate one store each in Uganda, but did not sell fresh fruit and vegetables when this research was conducted in 2011/12.

Sources: Authors.

Research carried out in 2011/12 indicated that, in both Kenya and Uganda, regional retailers were optimistic about future growth in FFV across their stores in Kenya, Uganda and East Africa. Although starting from a low base, the pace of growth in FFV sales by supermarkets is estimated to be 20-25 percent per year. Fresh 'an Juici (a procurement company for Nakumatt and Tuskys, discussed below) is planning to open a large new distribution centre in Kenya to facilitate its sourcing, and sees large future growth within Kenya and across East Africa. One of its main preferred suppliers (a Kenyan PMO) is investing in new receiving, packing and cool chain facilities within Nairobi.

This optimism is also evident in a 2011 report produced by Accenture, which forecast continued growth in middle-class consumer expenditure in SSA, which is predicted to rise from some \$600 billion in 2010 to \$1,000 billion by 2020. Much of this growth is expected to come from consumers in South Africa, Kenya, Nigeria and Uganda, which are among the nine SSA countries predicted to account for over 72 percent of consumer spending in SSA by 2020 (Hatch et al., 2011). Both foreign and African-owned supermarkets are expecting to benefit from this growth, which helps explain Wal-Mart's entry into Africa.

5.2 Supermarket procurement practices in Kenya and Uganda

The procurement practices of East African-based supermarkets influence the ability of smallholders to engage in regional FFV value chains and the terms of such engagement. Procurement is undertaken either by the supermarket itself (such as Uchumi) or through a specialist FFV procurement agency (practised by Nakumatt, Tuskys and Shoprite). The two procurement companies are: Fresh 'an Juici, established in 2003, which supplies Nakumatt and Tuskys and is wholly owned by Nakumatt; and Freshmark, Shoprite's procurement agency, which is wholly owned by Shoprite.

Supermarkets and their agents establish core sourcing relationships with a number of regular *preferred suppliers* who consistently provide the right quality of produce. For example, in 2009, Uchumi purchased 55 percent of its vegetables and 80 percent of its fruit through preferred suppliers in Kenya (Tschirley, 2010). Fresh 'an Juici also increasingly sources from preferred suppliers. Kenya has a longer history of supermarket retailing, and farmers are more prepared for meeting standards required by supermarkets than in Uganda, where supermarkets are less well established and purchasing practices are still evolving (authors' interviews). In both Kenya and Uganda, FFV suppliers consist of a mixture of large and medium commercial farms, outsourcers, traders/brokers and smallholders. In recent years, supermarkets in Kenya have reduced their reliance on brokers and increased direct sourcing from farmers. In Kenya, for example, in 1997 approximately 30 percent of FFV was sourced directly from farmers; by 2003 this had risen to 50 percent (Neven and Reardon, 2006a). There are no precise data for Uganda, but supermarkets

inform us they are trying to increase the share sourced directly from farmers and reduce purchases from traders.

In Kenya, our interviews indicated several tiers of supply. Preferred suppliers are usually medium-to-large farmers, and smallholder farmers have been replaced by large farmers as direct suppliers in most commodities, except yellow passion fruit, greens, traditional African vegetables and herbs. It is estimated that about 10 percent of supplies come directly from smallholders and wholesale markets, and from brokers to fill seasonal shortages. However, smallholders continue to supply Fresh 'an Juici indirectly, either as out-growers to larger farms or through PMOs, of which an example is discussed below. In both cases, the first tier preferred supplier oversees quality and consistency from its smallholders.

Fresh 'an Juici exports FFV through its Nairobi distribution centre to Nakumatt stores within East Africa, including Uganda. It mainly uses its own trucks, often unrefrigerated, with the 'cool chain' provided by transporting overnight when temperatures are lower. Fresh 'an Juici sources all vegetables domestically, but imports some fruit from abroad (an estimated 40 percent of total FFV procured). Citrus, grapes and top fruit come from South Africa through established direct sourcing relations with six preferred suppliers (authors' interviews).

Figure 3 presents a simplified summary of Fresh an Juicy operations in Nairobi, Kenya. All supplies are delivered to the Fresh 'an Juici central DC in Nairobi, apart from highly perishable items, which are delivered direct to the stores. No packaging or labelling is done by farmers; this happens in the DC. As FFV arrives in the DC, it is immediately weighed and sorted into different crates (green for Class 1 and red for Class 2); Class 3 is returned to the supplier. Class 1 goes into Nakumatt and Tuskys stores. Class 2 is sent to the local market. Fresh 'an Juici packages and labels the FFV before delivery to supermarket branches using its own and hired trucks. Fresh 'an Juici is responsible for the procurement as well as in-house FFV retail within Nakumatt and Tuskys stores, using a 'shop in a shop' method. This means Fresh 'an Juici manages the produce range, store space and dedicated in-store sales staff (employed by Fresh 'an Juici). All sales revenue is controlled by Fresh 'an Juici but Nakumatt deducts a 20 percent commission. However, because of logistical problems in sourcing everything from Nairobi, Nakumatt operates a decentralized system of procurement for its Mombasa network (authors' interviews).

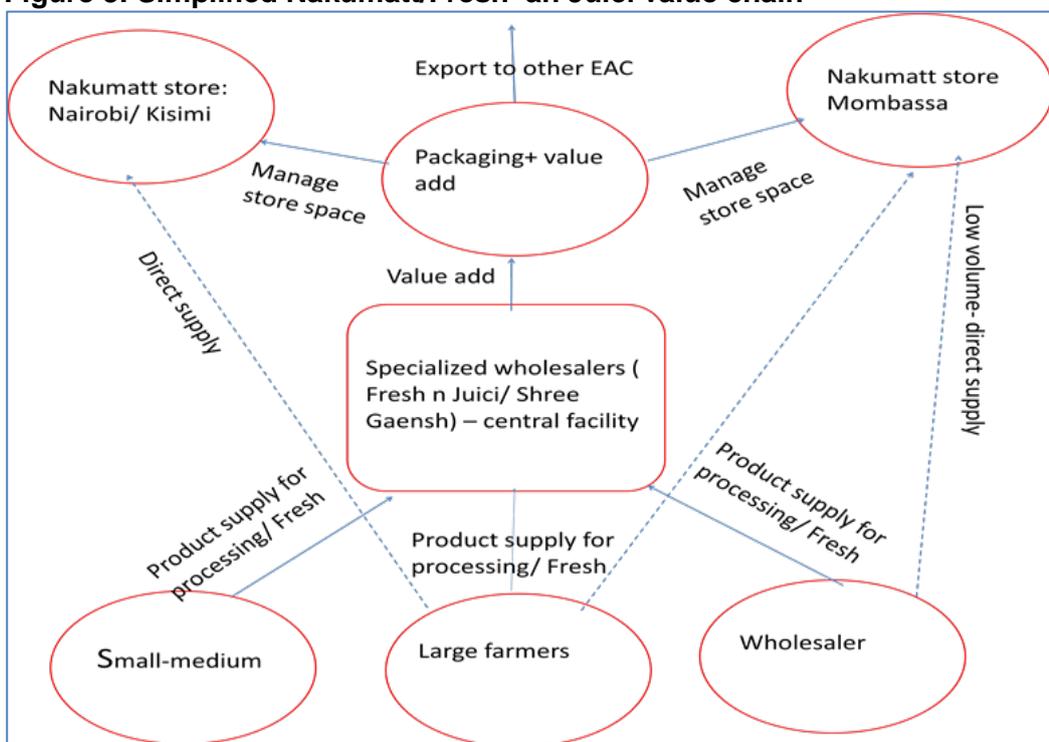
In Uganda, regional supermarket strategies are broadly similar to those described above, but they are still evolving, since the supermarkets are less well established. Uchumi buys directly from suppliers, who deliver to a central supermarket branch and then distribute to its outlets across greater Kampala. Nakumatt and Tuskys procure through Fresh 'an Juici, with one depot located in Kampala. Fresh 'an Juici's operations in Kampala are much smaller than those in Kenya, and the produce involves lower quantities and quality (authors' interviews). The procurement model is similar to that of Kenya (above) and farmers do not supply the supermarket directly. In the discussion of smallholder upgrading (below), we consider procurement companies' wider commercial strategies and relationships with their suppliers.

Shoprite uses its own procurement company, Freshmark, which in mid-2012 was located behind one of its central Kampala outlets. Shoprite is the longest established regional supermarket in Uganda. Freshmark procures for all its Ugandan stores (three at the time of research) and manages an annual budget provided by Shoprite. It sets FFV prices and each week provides the Shoprite outlets with a list of products available (local and imported). The stores place orders once a week and Freshmark places orders with farmers one week in advance. There are no written

contracts with suppliers, which seems mutually agreeable. Freshmark does not want to commit to procuring given amounts of FFV, and the farmers we interviewed said they did not want to be tied to contracts (authors' interviews).

Table 11 summarizes the types of suppliers and FFV products provided to the three regional supermarket buyers in Uganda. The percentage they claim to purchase from smallholders ranges from 10 to 90 percent, both directly and indirectly through PMOs or traders. There is a small number of *preferred suppliers* (about five to ten), which supply all the regional supermarkets/procurement companies. Most of the foreign-owned commercial farms specialize in floriculture products, which are all exported, although one or two also produce FFV and supply regional supermarkets based in Uganda. One particularly well-regarded large commercial farm supplies FFV to all three regional supermarkets as well as other outlets in Kampala (authors' interviews).

Figure 3: Simplified Nakumatt/Fresh 'an Juici value chain



Sources: Authors' research and adapted from Neven and Reardon (2004); Weatherspoon and Reardon (2003).

Regional supermarkets claim to procure 60-80 percent of FFV from local suppliers and to import 20-40 percent (see Table 11). Regional supermarkets claim they do not source from wet markets, although it is likely they do so to fill gaps from regular suppliers (authors' interviews). The smaller Ugandan-owned supermarkets often source from the main open market in and around Kampala (such as Owino, Nakasero and Nakawa) and from farmers and brokers (Aliguma and Nyoro, 2004). All supermarket buyers reported that, although they preferred to source locally, local suppliers could not ensure quality, consistency, shelf life and variety of products. Kenyan supermarkets suggested the quality of produce was much lower in Uganda, partly because of poor storage, transport and farming practices. The media reports the expansion of retail and changing consumer habits: 'Ugandans have learnt about one-stop shopping points and most now want to access everything at the same place' (Namono, 2012). Demand for FFV from supermarkets exceeds the ability of farmers to supply local produce. To fill the gap, supermarkets import mainly through traders. The main imports are citrus and apples (largely from South Africa and Egypt), garlic (China) and green beans, mangoes, pumpkin and Irish potatoes (Kenya) (Table 11).

Tshirley (2010) indicates that Freshmark prefers to source from larger farmers, although in Uganda there is one medium-sized farm that supplies regional supermarkets. This farm (which also exports flowers (cuttings) and a limited amount of FFV to Europe and Africa) was the only successful preferred FFV supplier to regional supermarkets in Uganda. This farm is the exception rather than the rule (see Evers et al., 2013b). The majority of local supplies come from smallholders through various routes (via out-growers and traders, with a small number coming directly from independent smallholders). All supermarkets/procurement agents would prefer to source direct from farmers (large, small or outsourcers), largely for economic reasons: traders' prices are reported to be 30-50 percent higher than farmers'. Traders rarely have preferred suppliers, so they cannot regularly provide consistent quality products. Furthermore, our field studies indicate a high turnover among traders, lack of reliability compared with farmers/out-growers and problematic traceability of products purchased from traders (authors' interviews).

Table 11:FFV procurement by regional supermarkets and their procurement agents

Regional supermarket buyer	Locally procured	Local products	Importers	Imported products
Buyer 1	80% local suppliers, of which 95% from smallholdings (35% direct from farmers; 65% from traders) and 5% from large farms	Tomatoes, bananas, pumpkin, mangoes, green beans, onions, green pepper, chili, greens, matooke Large farms specialize in tomatoes, packed cherry tomatoes, butternut, chilies, packed lettuce	20% imported through local traders	Egyptian oranges, Chinese garlic, South African apples
Buyer 2	60-80% locally procured (reject rate 20%) No details on suppliers	Pumpkin, bananas, greens, coloured peppers, mixed leaves, vegetables	20% through local traders	South African grapes, oranges, apples; Kenyan Irish potatoes, butternut, mixed wedges
Buyer 3	60% locally supplied, of which 10-20% from small farmers; 40% are traders; and one large farm	Green beans, mangoes, passion fruit, oranges, bananas, onions, pumpkin, matooke	40% imported through local traders	South African apples, oranges; Kenyan mangoes, green beans

Source: Authors' field study.

5.3 Regional supermarkets and standards

Regional supermarkets operating within Africa also apply standards, but they are not necessarily as stringent as those required by their European counterparts. Research interviews with key trade professionals, African supermarkets and producers indicated that supermarkets within SSA focus mainly on subjective and product standards, to some extent on process standards and less so on social and environmental standards (Woolworths in South Africa is an exception).

In both Kenya and Uganda, we found that produce was inspected visually at the point of delivery to the DC. One DC in Kenya indicated that about 10 percent of produce did not meet these visual quality standards and was rejected at point of delivery.²⁴ In Uganda, rejection rates based on visual inspection are closer to 30 percent. Public food safety standards are being upgraded in Uganda (via the Uganda Bureau of Standards); however, the scope of public standards does not yet cover FFV (Evers et al., 2013a).

GlobalGAP also makes provision for benchmarking country-level standards, and these have been applied in Kenya and more recently in Uganda. At the time of the research, KenyaGAP had been

²⁴ Of the rejected FFV, 45 percent comes from small farms, 45 percent from brokers and 10 percent from medium-sized farms and importers.

provisionally approved by GlobalGAP and endorsed by the Kenya National Bureau of Standards. The evolution of KenyaGAP was the result of three forces acting on the export industry in Kenya: donor and NGO concerns over smallholder exclusion resulting from standards; Fresh Produce Exporters Association of Kenya (FPEAK) insistence that a European standard should reflect local conditions; and pressure on GlobalGAP to make its standard more inclusive and adaptable for small farmers (Homer, 2010). According to Mbithi (2008), the development of the formal processes of KenyaGAP has been a consultative process, with key inputs from smallholder farmers. FPEAK has indicated that about 200 farmers have been approved to use the KenyaGap mark on their products. The KenyaGAP mark can be found on Nakumatt shelves as a consumer-facing label (Homer, 2010). Fresh 'an Juici is a member of FPEAK and formally requires all its suppliers to meet KenyaGAP standards. While we cannot verify the extent to which this is true, it clearly reflects a trend towards rising FFV standards within Kenyan supermarkets.

In Uganda, the adoption of local standards is in its infancy. The Uganda Bureau of Standards together with the Private Sector Foundation has overseen the development of UgaGAP, which was at the time of our research in the process of being endorsed by GlobalGAP. We found a widespread perception among farmers and in the press that Ugandan suppliers to Kenyan and South African supermarkets have to meet GlobalGAP or equivalent standards. However, we found a different reality, with only limited visual standards (with some product standards) applied. Key stakeholders, including regional supermarkets, informed us that regional supermarket standards in Uganda focus mainly on pest control; fumigation; packaging; freshness and appearance (Evers et al., 2013a). However, as we will see, even these basic standards are difficult to achieve and beyond the reach of the majority of Ugandan smallholders.

GlobalGAP has developed a new 'customizable' approach towards certification, namely, LocalGAP, which aims to help producers in emerging economies gradually meet good agricultural practices and is positioned as a tool to harmonize regional standards. This had not yet been rolled out at the time of our research.²⁵ It takes an incremental approach to certification, starting with a Foundation Level for FFV producers who face relatively few food safety and quality risks and sell primarily on a local level. The Intermediate Level is more widely available (including FFV, livestock and aquaculture) and incorporates stronger food safety standards accepted by particular national retailers.

Kenyan suppliers are perceived by regional supermarkets based in Uganda to take better care of FFV from field to point of delivery. This is partly because Kenyan FFV suppliers are more accustomed to standards globally and domestically. But in Uganda there is a lack of coordinated effort to design and apply local UgaGAP, to ensure farmers are aware of such standards or to support small farmers to meet them. As we note below, virtually all capacity building on standards is focused on GlobalGAP, and as yet supermarkets are disengaged from standard development and implementation. While supermarkets in Uganda were not specifically requesting certified standards locally, much imported produce from Kenya, South Africa and elsewhere in Africa meets fairly stringent standards required by other markets, reflecting a wider trend in quality improvement.

Our research did not find evidence that Kenyan or Ugandan supermarkets asked for FFV to meet social standards (including supermarket codes of labour practice). But in practice, some of the FFV

²⁵ Ugandan stakeholders had developed UGAGap which was in the process of being accepted as a valid certification by GlobalGAP when this research was conducted. UGAGap is not an incremental certification like LocalGAP; rather, its aim is to better reflect the range of products produced in Uganda (authors' interviews).

sold by regional African supermarkets will have met social standards required by other markets. The launch of FairTrade-certified products (initially chocolate and coffee) via FairTrade Africa in Kenyan supermarkets from 2013 indicates an awakening to social standards. Therefore, while standard requirements are growing within regional supermarket value chains, compliance levels are not as demanding as for global supermarket value chains, particularly European/UK GVCs.

5.4 Suppliers to Kenyan supermarkets

Although smallholders have found it challenging to export to global supermarkets (particularly in Europe), the expansion of Kenyan supermarkets is providing new openings for small and medium-sized producers. However, as discussed above, Kenyan supermarkets operate similar central distribution systems and standards to their European counterparts, even if they are not as stringent, which continues to pose challenges for smallholders. One study found supermarkets such as Uchumi and Nakumatt were concentrated in urban areas, and about 10 percent of the volume of vegetables traded in Nairobi was sold directly by farmers to supermarkets (Tschirley and Ayieko, 2009). Most farmers who sell to supermarkets produce on a relatively large scale, tend to have more capital and are specialized in commercial production, more so than those who sell through other channels (Hernandez et al., 2007). A study by Neven et al. (2009) covering 115 farmers producing kale, bananas and tomatoes in Kiambu, Thika, Nyandarua, Meru, Muranga and Kirinyaga districts showed that farms selling to supermarkets were on average five times larger than farms selling to traditional markets (9-18 ha compared with 1.6-2.4 ha, depending on the crop).

Our interviews with key informants and supermarket suppliers indicated that smallholders were better able to access Kenyan supermarkets when they were organized and could meet required standards. We carried out a case study with one such PMO. This started as a family business in the late 1980s, and has since witnessed significant economic and social upgrading; starting off with a three-acre farm, it now boasts over 160 employees and 4,500 smallholders producing FFV. It has become an important supplier of fresh produce (including bananas, pawpaw, green beans and sweet potatoes) to Kenyan grocery chains, including leading supermarkets. It has established cool chain facilities and ripening facilities for fruit, and coordinates the delivery of FFV direct to supermarket company DCs.

The PMO offers extension services and production inputs to its farmers to increase the output of their farms as well as the quality of the produce. The farmers in FGDs indicated that the PMO required them to implement standards before it would buy their produce (KenyaGAP equivalent). The farmers are trained by the PMO on standards, including the use of PPE, hygiene, constructing stores for chemicals and digging compost pits to dispose of empty chemical containers. The proprietors have a social vision of empowering the farmers, and most of these farmers (85 percent) are young and female and switched to farming FFV after the collapse of the coffee industry.

The PMO recognizes that, for proper management of a FFV value chain, farmers need to be organized. Since 2004, it has been receiving advisory services from a non-profit business development services organization, which has assisted it with (among other things) techniques for managing FFV value chains and identifying market opportunities for high-quality fresh produce. Sales have increased by 40 percent from 2008/09, when this PMO began branding its produce to differentiate it from others in the market. This increase in sales has also translated into increased producer prices, as confirmed by female farmers in FGDs:

The prices of bananas have changed since before we started selling to this PMO; we were selling bananas at a lower price but now the price is much better since we are selling per kilogram. We have also been trained on what type of chemicals to spray on the bananas and now they are not much affected by pest and diseases. The production of bananas has also increased, as compared to the past and this has led to an increase in income earned from bananas. The prices are high at twenty shillings per kilogram.

The PMO has placed a particular emphasis on supporting women smallholders. It had found women to be innovative and able to meet quality standards, and thus they received better incomes. When interviewed, the managing director of the PMO indicated that, when incomes rose, there was a tendency for men to return to farming, which often led to a decline in quality and reduced procurement by the PMO. Hence, the PMO positively encouraged the economic and social empowerment of women smallholders. This indicates that, if quality continues to be better remunerated in regional value chains, this could provide new opportunities for women's participation.

The coordination and organization of smallholders into groups has been one of the drivers of economic and social upgrading in the horticultural sector. Initially, smallholders organized themselves into groups (or used already existing self-help groups) so as to reap economies of scale regarding production inputs/costs, such as spraying of pesticides, water and soil analysis and certification. Horticultural exporters also preferred to deal with groups of farmers rather than individuals, given the size of their farms and therefore output. But increasingly, the group has become the organizing unit around which smallholders (particularly horticultural producers) come together. This holds as much for sale to Kenyan supermarkets as for export. Indeed, most of the initiatives aimed at economic and social upgrading smallholders continue to use this principle.

5.5 Suppliers to Ugandan supermarkets

Few independent smallholders engage directly in regional supermarket value chains within Uganda. We found two types of producers who were engaged in supplying regional supermarket value chains, discussed below.

5.5.1 Medium-sized farm

A major supplier of FFV to regional supermarkets is a comparatively large foreign-owned, GlobalGAP-certified commercial farm (approximately 30 ha, with 300-350 employees, 15 percent of whom are employed in FFV and the rest in floriculture) with extensive experience in floriculture, also supplying fresh vegetables (including tomatoes, peppers and cucumbers) to regional supermarkets in Kampala and Rwanda as well as European supermarkets. The move to FFV production is an example of 'strategic downgrading' to enter African regional value chains in products that have lower unit values and lower productivity and require less skilled labour than floriculture products. This farm was a preferred supplier to all of the regional supermarkets in Kampala, and had functionally upgraded at a domestic level through packaging and labelling its own brand products, controlling its own cool chain and employing the right number of workers with the right skills. It had no difficulty in meeting the standards or quantities required by Uganda-based regional supermarkets and was able to transport regular supplies to the regional supermarkets using its own refrigerated trucks. The demand for this farm's produce was greater than its supply, but there were no current plans to increase the volume of supplies to regional supermarkets.

5.5.2 Smallholder out-grower schemes

The second type of successful supplier to regional supermarkets was the farmer/out-grower who supplied through smallholders (1-2 ha each). Several out-growers also farm their own land and were reported to be increasing their supplies to supermarkets. We interviewed three out-grower schemes but only one supplied regional supermarkets. Two out-growers were also farming their own land (one was GlobalGAP-certified); the third was a trader (whose GlobalGAP certification had expired). Each had longstanding relationships with 100-200 smallholders. The trader did not supply regional supermarkets and focused solely on European/UK and Middle East traditional markets. One farmer/out-grower/exporter was a preferred supplier to all the regional supermarkets and a supplier to smaller high-quality retailers in Kampala, as well as selling to traditional export markets. The other farmer/out-grower/exporter was not supplying regional supermarkets, but was farming chilies and other fruit and vegetables through out-grower schemes, and on his own farm south of Kampala. He had been in this business for more than 15 years and had recently spoken to a UK supermarket buyer, but with no luck. During the course of our research, this out-grower expressed an interest in developing working relationships with regional supermarkets in Uganda and Kenya.

To be [GlobalGAP] compliant needs socially responsive smallholders; it requires cold storage; a proper pack-house; planting materials. Maybe in the long run we can meet Tesco standards, but not now (Ugandan exporter/out-grower).

Many smallholders (those interviewed in Kampala as well as in Mpigi and Masaka) sold their produce to traders/middlemen (which account for 30-40 percent of supermarket purchases) but were not aware of the final destination of their products. In Mpigi and Masaka, several farmers reported higher incomes (and a newfound ability to pay their children's school fees) owing to sales of FFV to traders or through Hortexa (to export markets). They reported that farmers who were organized and had direct links to exporters tended to fare better than those who were dependent on casual traders. However, many reported difficulties hiring young men and women, who are needed as casual workers. Older farmers said young people preferred to work in more lucrative service jobs (e.g. selling second-hand clothes, driving motorcycle taxis). Many smallholders complained they could not bargain with supermarkets, and had to take what was offered or leave it, so preferred not to sell to supermarkets, given buy-back schemes, poor terms of payment (60-90 days) and low net returns, related to low prices paid and high costs of transport.

Smallholders reported that farm work had become more arduous and labour-intensive. Farmers said they were working the land more intensively and had to use fertilizers to increase yields as well as chemicals to control pests and disease. Smallholders are ageing and their ability to work long hours is declining. In response to the difficulties in attracting young men to farm work, several stakeholders reported that farmers were employing temporary workers, who are internal migrants from less fertile and poorer parts of Uganda (especially the North). Also, women smallholders in Mpigi and Masaka reported an increase in demand for unpaid family labour, which has been borne by women farmers.

5.6 Summary

In sum, research suggests that food retailing, including the sale of FFV through supermarkets, is expanding in Kenya and Uganda. Supermarket sales of processed goods are growing faster than those of FFV. However, FFV sales are increasing (at 25 percent per year in Uganda), and supermarkets, farmers and commentators expect this to continue. African-owned companies are significant drivers of this expansion, particularly Kenyan and South African retailers. If the current wave of supermarket expansion in Uganda and Kenya continues, there is likely to be further

growth in regional value chains and a gradual shift away from wet markets towards supermarket sales of FFV. However, the pace of this change depends on continued economic growth and rising personal incomes in key markets (IMF, 2012). It also depends on consumer preferences for FFV purchases shifting from traditional wet markets towards supermarkets.

We found that, while supermarkets prefer (in principle) not to source from wet markets locally, they use suppliers who themselves often source from smallholders. If regional supermarkets continue to grow, they provide an opportunity for small and medium farmers in Kenya and Uganda to upgrade within the regional value chain rather than selling to Europe. However, we found Kenyan smallholders are currently better positioned than Ugandan farmers to do so, particularly where they are well organized through PMOs and more accustomed to standards. In relation to workers, our research found no regional supermarkets requiring social standards. However, where suppliers also export to European supermarkets, social standards are applied. In both Kenya and Uganda, it appears workers on smallholder farms fare worse than those on medium and larger farms. Therefore, regional supermarkets do not appear to be driving social upgrading of workers.

6. Climbing the value chain ladder

The expansion of supermarkets within East Africa is increasing the growth of regional value chains operating along similar lines to GVCs, with some overlap between suppliers, but also differences in terms of stringency of standards and more varied procurement practices. Regional value chains provide new opportunities for trade through supermarket procurement channels rather than traditional remote market agents. They therefore offer differential entry points into value chains at various levels (domestic, regional and global). Here, we consider the implications for economic and social upgrading of producers and workers, and the implications for policy.

6.1 Regional and global supermarket trade

The expansion of regional value chains provides a new dimension to value chain analysis. As we saw in Section 2 above, Kenya and Uganda have experienced growth in regional trade within SSA. It is not possible to estimate the percentage of trade facilitated by regional supermarkets, but, given that they are still few, it is likely to be small. However, a number of studies indicate that regional supermarket trade is likely to expand in future (Cattaneo, 2013; ITC, 2010; Tschirley and Reardon, forthcoming). Trade through global and regional value chains is proceeding in parallel.

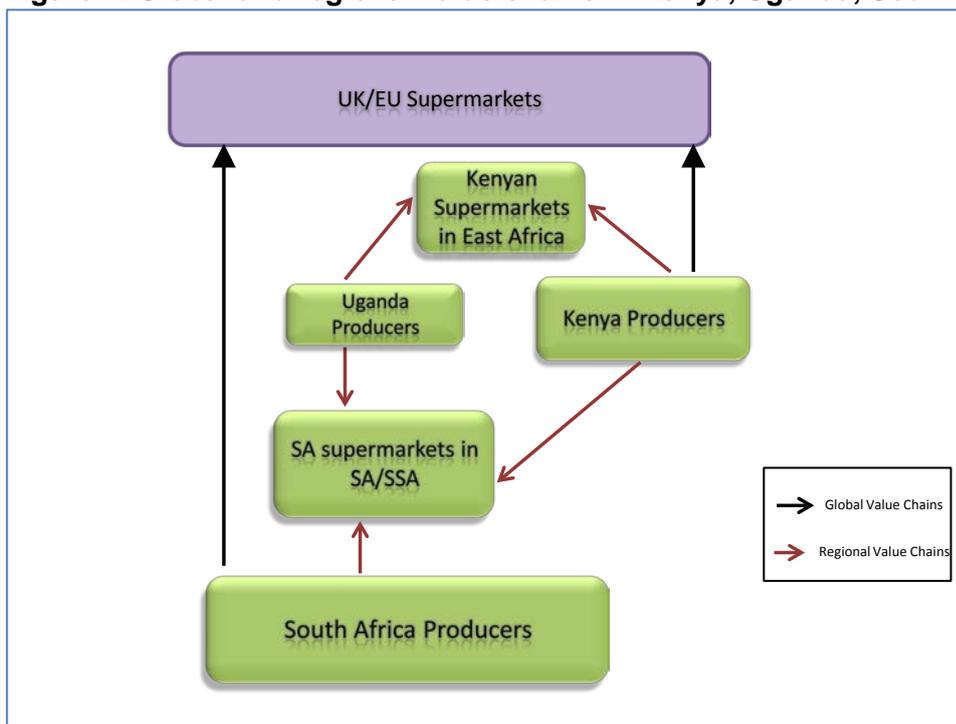
Figure 4 presents a simplified representation of two types of value chain – global and regional. South Africa and Kenya are linked to GVCs led by UK/EU supermarkets (e.g. Kenyan green beans sold in UK supermarkets). Uganda, as noted above, is not well integrated into GVCs.²⁶ Figure 4 also presents the expansion of regional value chains currently led by South African and Kenyan supermarkets, but in which global retailers (e.g. Wal-Mart) are beginning to play a role. Within regional value chains, South African producers supply South African supermarkets that channel produce to their stores throughout SSA. Kenyan producers supply Kenyan supermarkets that also channel Kenyan produce to their stores across East Africa.²⁷ Ugandan producers supplying both Kenyan and South African retailers operating within Uganda may also find their produce is channelled to supermarket branches beyond the Ugandan border. However, as indicated above, suppliers into regional supermarket value chains often have little knowledge that their produce is then exported elsewhere within Africa.

²⁶ Ugandan growers have been far more successful in supplying supermarkets through the floriculture GVC examined in Evers et al. (2013b).

²⁷ Suppliers we interviewed were often unaware that their FFV was exported, as they sent it direct to the local DC, from where a portion would be distributed to stores elsewhere in SSA.

When first entering a country, regional supermarkets tend to import a significant portion of their produce in order to source sufficient quantity and quality. However, this strategy tends to shift as they establish satisfactory local procurement arrangements (authors' interviews; Cattaneo, 2013). A study by Mattoo and Payton in Zambia for the World Bank (cited by Cattaneo, 2013) divides this process into three phases. In the first phase of entering a country, regional supermarkets mainly import approximately 80 percent of their food (often from their home country). In the second phase, as capacity develops among local suppliers, they expand domestic sourcing up to approximately 80 percent, importing only products that are not produced locally. In the third phase, as supermarkets establish stores in new countries, they may import from phase two suppliers through their regional distribution chains. Based on our research, Kenya clearly falls within the third phase, with domestic supply to Kenyan supermarkets also being exported to Uganda and beyond. Uganda (where supermarkets are more recent) is in the second phase, with 60-80 percent of local sourcing. Indications are that it will move to the third phase, with some produce also exported to regional supermarkets, including in Rwanda. Kenya is also a growing supplier of fresh vegetables to supermarkets within South Africa (we found no evidence of Ugandan produce sold to South African supermarkets). However, ITC estimates that South Africa has future growth potential for SSA producers (ITC, 2010). Therefore, the growing regional trade identified in Section 2 incorporates small but growing procurement through regional supermarket value chains.

Figure 4: Global and regional value chains in Kenya, Uganda, South Africa



Source: Authors' research.

6.2 Climbing the value chain ladder

The expansion of regional supermarkets provides opportunities for smaller and medium-sized farmers to enter the FFV value chain, without having to attain stringent European supermarket requirements as a prerequisite. This has been better achieved within Kenya, where some producers have become more organized and received support to attain standards required by supermarkets such as Tuskys, Uchumi and Nakumatt. Within Uganda, fewer smallholders have been able to access regional supermarkets, and they remain more dependent on selling to traditional wet markets, to traders and, to a decreasing extent, to overseas wholesalers. Some FFV is imported by supermarkets from other parts of Africa (including Kenya), owing to better quality,

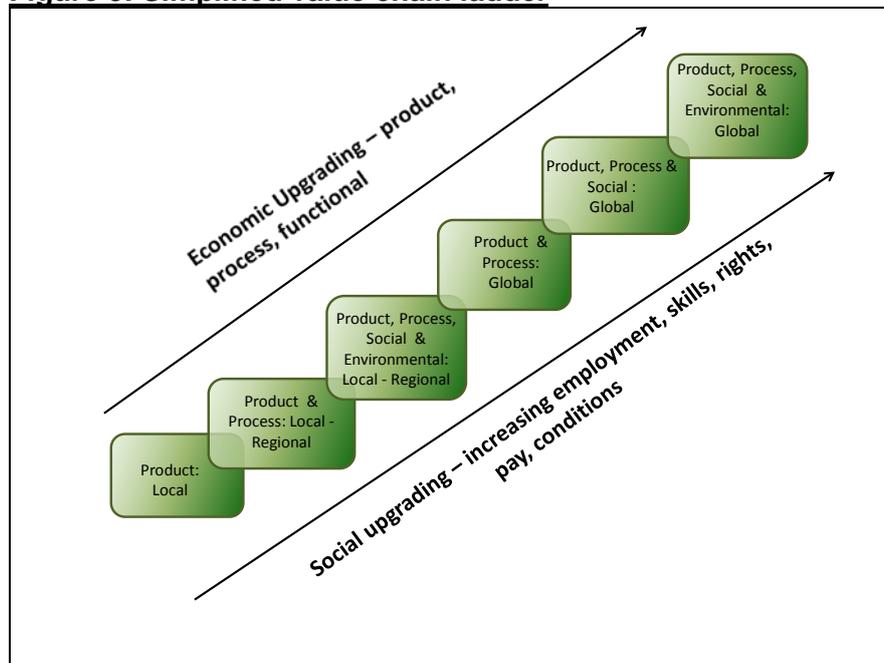
even though local sourcing is potentially possible. Smallholders in both countries unable to access regional supermarkets sell only to traders and/or wet markets. However, even here there are spill-over pressures for rising visual standards as supermarkets compete for consumers based on quality.

Drawing these trends together, we can see the emergence of a 'value chain ladder' depicted in Figure 5, with overlapping but increasingly stringent packages of standards required at each level. The higher rungs of the value chain ladder represent the more stringent standard packages required by European supermarkets, incorporating product, process, environmental and social standards. The middle rungs of the ladder represent less stringent but gradually more demanding product and process standards (with fewer environmental and social requirements) required by regional supermarkets in SSA. The lower rungs of the ladder represent the introduction of product and process standards increasingly required by domestic supermarkets, with only visual (product) standards expected at the lowest level. In this context, economic upgrading involves small and medium producers incrementally attaining better access to retailers and the skills required to move up the value chain to comply with higher standards. Social upgrading involves improvements in remuneration, measurable social standards and enabling rights.

The ladder suggests that regional value chains provide alternatives and a wider range of local sourcing options for producers, who can decide whether to aim exclusively for a single level of the value chain or to plan a strategy to gradually climb the 'value chain ladder' and eventually reach global standards and requirements. The attainment of standards must be seen as an incremental process (rather than one great leap to GlobalGAP) in which a skilled and enabled workforce and smallholder base are understood as central to increasing quality production, and expanding regional trade in FFV. Entry at lower rungs may open up possibilities for gradually moving to higher rungs. The value chain ladder is not static, and the expansion of middle-income consumers and supermarket retailing within East Africa is likely to increase pressure for rising regional and domestic standards (as is already occurring within Kenya). If those trends continue it may become increasingly difficult for smallholders to access supermarkets within their own countries in the future.

It should not be assumed that upgrading is always desirable. It is possible that downgrading might be a conscious strategy for some producers and workers (Milberg and Winkler, 2013). For example, one Kenyan producer interviewed in our study had preferred to stop supplying European supermarkets owing to the high costs of meeting their requirements and intense price pressures, and had switched to lower-value domestic supermarkets. The rise of regional value chains thus provides some producers with the possibility of alternative value chain strategies, which also potentially enhances their bargaining position in relation to global supermarkets. Our study found UK supermarkets were aware of this, such as in the Sainsbury's visit cited above, hence their increasing attention to building better supplier relations.

Figure 5: Simplified value chain ladder



Source: Authors.

6.3 Implications for policy

The rise of regional value chains has important policy implications, as donor and government policy often focuses fairly narrowly on supporting smallholder access to GVCs. Our research indicates that accessing and moving up FFV value chains is not easily achieved, but requires strategic interventions to support upgrading. Research in both Kenya and Uganda shows that fragmented smallholders are unlikely to supply regional supermarkets without coordinated organization and support. To date, smaller and medium producers in Kenya have been more successful than those in Uganda in moving from lower to medium rungs of the value chain ladder. Kenya therefore provides an example of a trajectory Uganda could potentially follow in supporting local producers to supply regional supermarkets locally.

Kenya has a first mover advantage, in that supermarkets were established there earlier than they were in Uganda. It provides an example of support (from the private sector, civil society, government and donors), helping local producers move up the value chain through access to domestic (and through this regional) supermarkets. The Kenyan horticultural industry has been a beneficiary of numerous private sector- and donor-funded projects over the past three decades (see, for example, Fernandez-Stark, 2011; Homer, 2010; Oxfam and IPL, 2013; Tschirley, 2010). There has been investment in improving quality and upgrading skills in the sector through various projects.²⁸This has driven systematic investment in improving logistical infrastructure, product quality and upgrading skills in Kenyan horticulture.²⁹

²⁸ Projects include: Business Development Services; the Europe, Africa, Caribbean and Pacific Liaison Committee(COLEACP) Pesticides Initiative Programme (PIP); KenyaGAP; the Kenya Horticulture Development Programme (US Agency for International Development, USAID), now known as the Kenya Horticulture Competitive Project; Technoserve; and the African Leafy Project. At a Capturing the Gains Stakeholder Workshop held in Nairobi in November 2012, a senior representative of the Ministry of Agriculture reported that the Kenyan government was in the process of adopting a supply chain approach to agriculture support.

²⁹ Egerton University has evolved as a centre of excellence for horticultural training and the Practical Training Centre coordinated by FPEAK.

Accessing international markets was more challenging for small to medium producers than for large commercial producers. Hence, the National Technical Working Group 2004, led by FPEAK, explored the potential for a KenyaGAP standard that would be more attuned to local conditions. Government bodies played a proactive role in the discussions to redevelop the FPEAK standard to KenyaGAP (Tallontire, 2008). Donors such as Coleacp and USAID also provided finance and technical assistance (Garbutt, 2007). According to Ouma (2010), Kenya was able to deal with standards-based challenges better than other East African countries, as donors invested heavily in support services and institutional capacity building. Certification bodies also provided critical knowledge transfer to the industry. This was shown empirically by Tallontire et al. (2013), who found that most Kenyan farmers received training related to the technical content of GAP, but key concerns of farmers remained relating to contractual relationship between farmers and exporters.

In Uganda, much focus is on accessing global value chains and standards. The Private Sector Foundation has worked with the Ugandan National Bureau of Standards (UNBS) in the development of UgaGAP. The government of Uganda (Ministry of Trade, Cooperatives and Industry; UNBS) together with the Private Sector Foundation and donor partners (USAID, the Swedish International Development Cooperation Agency (Sida), COLEACP) have partnerships with Hortexa and HPOU focused largely on training smallholders and traders in GlobalGAP standards. Other support has been provided by donors such as those associated with Icemark and Sulma Foods, for example training, inputs and transport and coordination of smallholder supplies for export. Ugandan smallholders have an opportunity, but are not well positioned to meet expanding demand from regional supermarkets without support and policy engagement. There are, however, moves to create a better 'enabling environment' for Ugandan smallholders in regional value chains. For example, several groups of smallholders are trying to obtain support from donors (including the Agribusiness Initiative Trust, funded by donors and government) to establish a PMO to coordinate training, input purchases and exports. These efforts aim to coordinate the value chain, and reduce the large numbers of traders and consolidate farm-based suppliers.

So far, donor and government efforts in horticulture in Uganda have been focused mainly on the production segment of the value chain, and there is little engagement with retailers. This leads to fragmented support, which could be far more effective if the government vision was broadened to consider the whole of the regional value chain, including inputs, storage, infrastructure, logistics, retailers and the consumer aspects of value chains. Interviews with South African supermarkets indicate they have little engagement with policymakers (although this is beginning to change). 'Value chain upgrading' strategies need to be buyer- rather than producer-led, taking into account differentiated requirements of domestic, regional and global supermarkets. Strategies to promote global exports have had mixed results. Supporting supply into regional supermarkets locally would provide a more achievable goal at this stage.

Increasing intra-regional trade in East Africa is a priority of the East African Community (EAC) and member countries, including Uganda and Kenya, and this is the goal of the Aid for Trade Strategy in East Africa, through the TMEA programme.³⁰ TMEA is charged with strengthening regional trade and trade institutions by cutting the costs and time involved in cross-border trade, largely through partnerships that provide institutional and infrastructure support. However, at the time of our research, the TMEA programme did not have regional supply chains on its radar, even though, as

³⁰ TMEA is a multi-donor, regional initiative that seeks to increase trade to foster growth and poverty reduction in EAC member countries (plus South Sudan). As a regional institution, TMEA works in partnership with EAC institutions as well as member governments, business associations and civil society organizations across the regional economic community. See <http://www.trademarka.com/>

we have argued in this paper, they are of growing importance as channels for intra-regional trade. Donor strategies are becoming more cognizant of the importance of GVCs, as evidenced by the WTO Aid for Trade Review (2013) on 'Connecting to Value Chains'. This was supported by a study of the role of Aid for Trade in African food value chains (Cattaneo, 2013). We suggest that regional value chains have an important, but neglected, role in informing trade policy, including donor-supported Aid for Trade programmes.

In their review of the evaluation literature on Aid for Trade, Mayer and Milberg (2013) consider the significance of Aid for Trade in light of the growing importance of GVCs in world trade. A key finding of their paper is that the benefits of Aid for Trade, 'unless targeted at enhancing the capacities of workers and small producers [...] may disproportionately flow to those with power in the chain and not to the intended beneficiaries' (p.1). Research in Kenya and Uganda indicates that improvements for workers in GVCs have resulted from interventions that include civil society campaigns, supermarket codes of labour practice, unionization and improved labour legislation. However, workers on smallholder and non-export farms often fare worse than those on larger export farms. As Bernhardt and Milberg (2011) find, economic upgrading does not automatically lead to social upgrading of workers in global or regional value chains without interventions that support the weakest participants.

Public policy, civil society initiatives and private strategies need to be more 'joined up' in addressing challenges across the different value chain nodes, rather than focusing on separate nodes without taking others into account. Better alliances need to be forged between different initiatives at different levels along regional and global value chains. With better support, smallholders and workers could climb the value chain ladder (upgrade) as they gradually adapt to the increasing demands of different supermarkets. A global and regional value chain approach illuminates possibilities for addressing these challenges and provides a framework for forging new forms of partnerships to support more resilient horticulture value chains in the medium to long term.

7. Conclusion

Our research suggests this is an opportune time for smallholders and workers in Kenya and Uganda to engage in global and regional value chains. With better support, smallholders and workers could obtain better value chain access, and upgrade by *climbing the value chain ladder*, as they gradually adapt to the increasing requirements of different supermarket buyers. Our research has indicated that, with widening regional markets and greater South–South trade, European supermarkets can no longer be assured of quality supply. In response, some supermarkets are building better value chain relationships with their suppliers. A crucial challenge is ensuring more innovative and skilled farmers and workers continue to participate in value chains. Investing in their development at the lower rungs of the value chain ladder would help them upgrade, and support the future expansion of quality supply for all supermarkets.

However, for smallholders and workers to benefit, coordinated support for value chain upgrading is needed. To date, this has been more forthcoming in Kenya than in Uganda, and, despite challenges, there is much to be learnt from the Kenyan experience. Governments, donors and Aid for Trade programmes often focus on exports, overlooking the possibilities of domestic value chain upgrading as supermarkets expand within African countries. Fragmented smallholders unable to attain the upper levels of the value chain are often overlooked, with inadequate support for participation in local supermarket sourcing. Enhancing the skills, capacity and rewards of smallholders, workers and their wider communities is essential to attract more skilled and

innovative producers, smallholders and workers to agriculture. Better coordination among all stakeholders (private, public and social actors) is needed to provide wider support to smaller producers, workers, their families and communities. A global and regional value chain approach helps illuminate possibilities for addressing these challenges and forging partnerships to support more resilient global, regional and domestic horticulture value chains in the future.

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