



Costs and benefits of GLOBAPGAP compliance for smallholders: synthesised findings

By IIED and NRI

Key messages

- While small scale growers (SSG) face on-farm costs (initial and recurring investments) and off-farm costs (chain management) to comply with GLOBALGAP, no premium is paid for certified products and there is no evidence that higher prices are paid at farm level.
- Once investment meets the threshold, viability of SSG reaches a healthy level and benefits are opportunities for preferential market access as well as non-financial gains related to upgraded produce quality, improved field hygiene, better knowledge of pesticide use and wider farm management benefits.
- Key factor of success relate to co-investments, flexible technical support and appropriate donor aid.

IIED and NRI's research on the costs and benefits of GLOBAPGAP compliance for small-scale growers in Sub-Saharan Africa has shown that there are evident barriers to sustaining access to export horticulture markets. Financial costs and technical requirements are high. Those SSG already in the export business that are required to comply to continue exporting often complain that prices received do not increase whilst costs of compliance are high. Yet perceived benefits of upgrading production activities are high for those SSG who are able to comply and there are secondary benefits for the rural economy. Benefits for the wider economy include the jobs provided in packhouses and in transportation. Exporter companies have demonstrated their willingness to form partnerships with SSG by providing high levels of financial, technical and administrative support. Donor commitment to this trade has in turn provided an important startup impetus in helping growers to adapt to EU requirements. Going forward, realizing and sustaining these benefits across farms and economies now requires appropriate investments to facilitate continuation of the European market access that has proved to be so beneficial to the economies of some developing countries

This research aimed to identify, quantify and assess the range of costs and benefits associated with compliance with the GLOBAPGAP standard in order to design policies for donors and standard-setters that are pro-poor and sustainable. The GLOBAPGAP protocol for fresh fruits and vegetables was chosen as a special focus for the study as this is the only standard that has been identified as having a significant impact on African smallholders. From an economic development viewpoint, trade linking rich countries with relatively poor SSGs in developing countries has great potential to provide poverty alleviation and long-term economic development and to complement current development aid budgets. This is particularly true in Kenya and Zambia.

A techno-economic research team was formed, which was made up of an economist working with a standards compliance expert, who conducted face-to-face semi-structured interviews along the supply chain. This research was conducted in March 2006 (Zambia) and October 2006 (Kenya). Rather than using formal questionnaires to gather information, the team used a semi-structured interview process to elicit answers, views and reflections on: financial costs and benefits; production changes; perceptions of the compliance process; and non-financial changes and benefits. The analysis of the viability of GLOBAPGAP compliance for small-scale growers could be expressed as:

Viability = Turnover from crop sales - Initial and recurring costs associated with compliance
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Methodology

Conceptually, Kenya is the 'leader' country in the export horticulture markets for the region, and is being "followed" by Zambia. This is well-illustrated by the larger number of SSG exporters, volume of exports, and GLOBAPGAP certificates in each country [see Box 1].

Box 1 Profile of export horticulture in Zambia and Kenya, 2006

Factor	Zambia	Kenya
Number of exporting companies	2	30
UK significance for export	100%	50%
Volume exported to UK (t)	3,444	32,644
Air freight significance	100%	75%
No. SSG exporting	10	5,520
Proportion sold into supermarkets	100%	75%
Export horticulture crops ranking		
1	Baby-corn	Green beans
2	Mange tout	Baby-corn
3	Green beans	Mange tout
Number of GlobalGAP certificates	4	386

The following findings are synthesised from the research.

Key costs factors relate to the requirement (and ability) to invest in upgrading of certain components of production

GLOBAPGAP compliance requires higher threshold levels of capitalisation than many SSG can afford. In Kenya, average per-farm initial costs of compliance with GLOBAPGAP in 2006 were measured at £1,145, of which 36 per cent were paid by the SSG, and annual recurrent costs were £175, with farmers paying on average 14 per cent of recurrent costs associated with

GLOBAPGAP and exporters (and/or donors) paying the rest.

	1 Zambia	2 Kenya
SSG sample	14	1,968
Chief vegetable crop	Baby-corn	Green beans
Initial cost	£4,664	£1,145
Proportion paid by SSGs	6% [£279]	36% [£412]
Recurrent cost	£938	£175
Proportion paid by SSGs	12%	14%
Estimated turnover on GLOBAPGAP crops	£413	£417-1250
Recurrent GLOBAPGAP costs as % of turnover	227%	21%
Estimated change in SSG numbers in export	-97% since 2000	-60% since 2002

Financial and non-financial benefits

Satisfied compliant suppliers

All SSGs who were GLOBAPGAP certified that were interviewed for this project reported general satisfaction with GLOBAPGAP. GLOBAPGAP's greatest reported benefit for SSG is in opportunities for preferential market access. This includes access to produce markets, credit, trade credit, and quality inputs (high-germination seeds, high-nitrate fertiliser, etc). In addition, SSGs perceived considerable non-financial benefits, and although the use of income or profit margin as an indicator of success or failure is key, it ignores the other perceived advantages of GLOBALGAP include production of quality produce, improved field hygiene, better knowledge of pesticide use, and wider farm management benefits.

Trade aids the rural economy.

Our findings illustrate the power of trade to unleash multiplier benefits in rural areas, as farmers report more efficient and stable farming operations serving all markets. By expanding the potential markets for Kenyan produce, standards have increased the demand for export horticulture and injected cash into rural areas. Productivity (yield per hectare) has increased, input costs have been reduced through more prudent pesticide and fertiliser application, and the ties with export horticulture have increased the quality of the seeds. Standards provide incentives to

upgrade and are a stimulus for farmers to improve their practices. In turn exporters find and secure product from these certified farmers. Farmers who had attained GLOBALGAP certification were clearly reaping benefits from adoption of good agricultural practice, record keeping and improved safety and hygiene. Many farmers said that they were using GLOBALGAP records to understand their financial viability and run their farms more commercially. A side effect of the increased export access has been that the number of skilled agricultural technicians has risen and the value of skilled labour has risen.

Key factors of success for benefits to outweigh costs

Co-investment

Implementing GLOBALGAP properly is also a major investment for exporters. A survey of companies that control over 50 per cent of Kenyan export horticulture market revealed that over £2.2 million has been invested in getting 1,948 farms to a position where they can be audited for GLOBALGAP compliance.

Flexible technical support

A second key role for the exporter was as provider of both managerial and technical support for the growers. The largest of the export companies had well staffed and resourced outgrower management teams, comprehensive annual training programmes, internal auditors and programmes for sampling and laboratory analysis. There is an economic threshold for the size of a smallholder scheme that exporters are willing to work with, related to the perceived high cost of technical support per farm.

Successful exporters provide positive incentives to maximize SSG supplying their export trade. Furthermore, the total investment by the exporter is a predictor of the health of the GLOBALGAP - certified SSG outgrowers supplying it. Large export companies fulfil the role of primary marketing organisation (PMO) for the growers and were capable not only of providing the necessary managerial, technical and logistical support but

were also sometimes able to represent the growers effectively during the certification audit.

It is significant that smallholders who are not well supported by their exporter struggled with GLOBALGAP and evidence from Kenya has shown that many either fail to certify or drop out of the compliance system within 1-2 years of first being certified. The most common cause of individual grower withdrawals from GLOBALGAP was an inability to deal with the complexities of the standard and high costs associated with compliance.

All of the failed and failing schemes are associated with the smaller companies who lacked the necessary resources to operate an efficient and sustainable GLOBALGAP compliant scheme. The smaller exporters had very limited outgrower management teams or in some cases the team was virtually non-existent. Interviews with farmers associated with these schemes showed how such farmers are more aware of the very high costs of compliance than those supplying large companies and cannot see how a compliant system can be maintained without a dramatic increase in income.

Appropriate donor support

Donor support has been a significant factor in encouraging and funding attempts to comply with GLOBALGAP. This is especially true for smaller export companies, who have relied heavily on donor support amounting to 40-100 per cent of establishment costs as compared to 15-28 per cent for the large companies. Smaller companies were more likely to push more of the costs of compliance onto the farmer and to operate a cheaper system with many inefficient or technically unsustainable features simply to reduce costs. Some of these companies were frank in saying that they cannot see how the system can be maintained once donor support is withdrawn. Significantly, questions are raised about the sustainability of a donor-primed model, since the average recurrent costs of GLOBALGAP compliance typically exceed half of the margin for SSG farmers.