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Fresh perspectives

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Impact of EurepGAP on small-scale vegetable growers in Zambia

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Production and processing of fresh produce for export to the European Union (EU) is an attractive market opportunity, with ten sub-Saharan Africa (SSA) countries exporting significant volumes of fresh fruits and vegetables to the EU. In Zambia, the agricultural sector is important for livelihoods and it is growing, with export horticulture growing the fastest. Smallholders play a significant role in agriculture and in export horticulture.

In many of the countries in sub-Saharan Africa, small-scale growers make a major contribution to export production and derive significant levels of income in return. In Zambia where rural household incomes are often less than £100 per annum, small-scale growers have made incomes of between £1,000 and £7,500 from vegetable exports.

Zambia is a double land locked country situated a long way from the lucrative European market. The Zambian export industry is small but well organised, with just two exporters (formerly three), a small number of large commercial growers and one smallholder scheme. Lacking easy port access, the Zambian export industry has only been able to compete internationally by supplying high-value exotic and out-of-season fresh and minimally processed vegetables to EU retail markets. At present, Zambia is not an economically viable supplier for EU wholesale or other lower-value export markets. Therefore it must rely on accessing retail markets (particularly those involving UK supermarkets) that demand compliance with the European retailers' private standard for Good Agricultural Practices (EurepGAP) as the absolute minimum for market entry.

Much of the evidence for problems with EurepGAP is anecdota. For this reason the decision was made to conduct a detailed cost-benefit analysis of EurepGAP implementation by small-scale growers in Kenya, Uganda and Zambia. In Zambia the fieldwork was conducted by NRI and IIED working in collaboration with the NRDC-ZEGA Training Trust (NZTT). The overall objective was to identify, quantify and assess the range of costs and benefits associated with compliance with the EurepGAP standard in order to design policies for donors and standards-setters that are pro-poor and sustainable (a CBA was carried out in Kenya with far larger survey – see *Fresh Perspectives* #2).

When the EurepGAP implementation process was started in 2003 nearly 500 smallholders were involved, organised in an independent marketing cooperative (LACCU) to sell produce to both local and export markets. Incomes levels from exports varied from £1,000 to £7,500. Extensive support was received from the major exporter, Agriflora.

During March 2006, managers and small-scale growers in the smallholder scheme were surveyed. The timing of the visits was important since the EurepGAP audit was planned for June 2006 and cooperative farmers were planting baby corn in accordance with an arrangement with the exporter, for harvest before June 2006 to comply with the requirements of the EurepGAP Protocol for Fresh Fruits and Vegetables version 2.1 - January 2004.

Experiences of compliance with EUREPGAP

Growers reported the benefits of EurepGAP compliance as increasing farm efficiency and yields, improving plant health and food safety of products, food safety and hygiene training, with spin-off benefits as workers apply knowledge in the home, and improved health and safety of farm workers, especially those involved in handling crop protection products.

Certification also builds buyer confidence in the professional standards of the farmers (EurepGAP certified SSGs in Zambia used EurepGAP as a marketing tool to access high-value local, regional and EU retail markets). New 'soft' technologies were transferred to the farmers,

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Working with the whole supply chain to explore opportunities for securing, upgrading and expanding pro-poor procurement in international horticultural supply chains from developing countries

key messages

- **The geographic position of Zambia means that is must rely on accessing high value markets, particularly involving UK supermarkets, that also demand compliance with the European retailers' private standard for Good Agricultural Practices (EurepGAP) as the absolute minimum for market entry.**
- **The experience of a smallholder group marketing organisation in Zambia showed that compliance with EurepGAP is technically feasible.**
- **The Zambian smallholders had a very positive view of EurepGAP as a standard and are firmly convinced of the benefits of good agricultural practice.**
- **The economics of the system are currently pushing these smallholders away from export, or at least, away from exporting EurepGAP compliance.skilled labour.**

Fresh Perspectives is a series of short opinion and briefing papers written by key stakeholders on issues central to the debate about the impact of private voluntary standards and sustainable development. Fresh Perspectives fast-track the reader on specific issues and aim to guide the debate. Fresh Perspectives are freely available at www.agrifoodstandards.net and as paper copies on request from IIED. Fresh Perspectives operates an open-door policy for stakeholders with an opinion or an issue they wish to highlight. Contact James MacGregor at IIED if you are interested in writing one.

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>> continued including a range of land and business management skills, and exposure to and experience with working with cooperative structures, including negotiation and resolution management, which have spin-offs as farmers apply these to their entire farm. It also built grower confidence in opportunities for market growth and financial reward, developing incentives for growth, stimulating innovation and enhancing efficiency.

Establishment of the centralised facilities required for option 2 of EurepGAP allowed for cost savings through bulk purchases of farm inputs and made it easier for the farmer groups to access credit and loan facilities.

On the negative side, significant costs were reported as associated with EurepGAP compliance. For a group of 25 smallholders in Zambia, compliance costs amounted to average per grower contributions of £4,664 for initial investment, and £938 per annum for maintenance costs. These levels of cost were untenable given the low number of smallholders involved and the poor level of income achieved from export vegetable sales during the 2005 season. Smallholders cannot establish or maintain EurepGAP without sustained financial and technical support from external agencies. Continued improvements to the EurepGAP standard are raising costs and barriers to market entry.

Cooperative management is one key element of compliance that requires investment of time and resources by all members. Key principles are that it remains democratic, it works proactively for its members, distribution of costs and benefits are equitable, and it develops and sticks to its business plan.

Is EurepGAP responsible for Zambian farmers becoming excluded?

Incomes of farmers who are compliant with EurepGAP have reduced by half since 2002, and margins are being further squeezed. Better access to market opportunities and efficiency savings on farms are needed. Less than 3 per cent of the smallholders involved in supplying the UK market with export horticulture in 2000 are doing so today.

But EurepGAP cannot be seen as being primarily responsible for loss of access to EU markets by Zambian smallholders. The bankruptcy of the biggest exporter Agriflora in July 2004 eliminated all of the advantages (reliable monthly income via written contracts (initially paid in foreign currency), transport logistics, managerial and technical support) of being linked to a major exporter and also deprived the growers of access to markets for high value commodities such as peas.

Issues external to the horticulture industry have also proved significant. In December 2005, the value of Zambian Kwacha appreciated against the US dollar - a major blow to the economic viability of the export horticulture industry. The cost of air transportation increased, and the number of cargo flights from Lusaka fell from seven flights per week in 2005 to just one flight per week in March 2006. Furthermore, the budget of January 2006 proposed levying 17.5 per cent VAT on all agricultural inputs (other than those for maize) and all food sales other than maize meal. A 45 per cent withholding tax was proposed for businesses. The detailed records and production contracts of export markets render producers liable to VAT. Although the local markets offer poor prices and unreliable sales they do operate on a cash in-hand basis at the farm gate (hence no transport costs) with no records or receipts, thus making taxation easy to avoid.

Investment in reducing the costs of infrastructure, especially irrigation, is justified by the argument that the control points for EurepGAP compliance for small-scale growers need to be made less costly. Donors have a key role to play in making this happen and championing the role of small-scale growers in export supply chains and in the standard setting process.

Is EurepGAP certification viable in Zambia?

The experience of LACCU in Zambia shows that compliance with the requirements of option 2 of the EurepGAP protocol for fresh fruits and vegetables is technically feasible for small-scale growers with the possible exception of some elements of the Quality Management System.

Gross incomes of farmers interviewed in March 2006 varied from £555-£2,462 per annum and net incomes from export sales varied from £37 to £1,317, with most making between £300 and £700 per annum at net income from sales of baby corn for export. This is a drastic reduction on the net income figures seen during the 2003-2004 season with Agriflora.

The EurepGAP system implemented by the producers' independent marketing cooperative cost £116,621 for initial investment and £23,453 per annum. This investment provided the farmer-led market organisation with relatively sophisticated produce handling facilities and external technical support from NZTT to cover training, extension advice, farm inspection and internal auditing and development and maintenance of the Quality Management System and documentation systems for EurepGAP. Given that 25 growers were participating in the EurepGAP scheme in 2005, the cost per individual grower would have been £4,664 for initial investment and £938 annually to maintain the system. However, if the 10 growers who went for EurepGAP certification in June 2006 had met the cost it would have been £11,662 per grower for initial investment and £2,345 per grower to maintain the system.

Given the farmers' levels of income from export sales, these figures are obviously untenable. Massive levels of donor support made it possible to achieve EurepGAP but as donor support only has a limited duration it would not be possible to maintain EurepGAP certification unaided.

Had the original system with 300-500 growers been sustained, the individual investment costs would be £974 and £584 per annum respectively and recurring costs would range from £463 to £225 per annum. In addition savings could be made by removing some of the more luxurious components of the system.

Overall for EurepGAP to be viable for smallholders in Zambia there would be a need for a much larger group of certified growers with a considerably higher and more stable income and ideally the exporter would play a role in managing the scheme. The economics of the system are currently pushing smallholders away from export, or at least, away from exporting EurepGAP compliance. Other markets, such as South Africa, are becoming more attractive and the standards regime to enter these markets will be less severe. But without external help and patronage, accessing these opportunities, is unlikely to reap decent returns or sustainable livelihoods.

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This publication is summarised from Fresh Insights no. 5 'Impact of EurepGAP on small-scale vegetable growers in Zambia' by Andrew Graffham and James MacGregor and is available on the project website www.agrifoodstandards.net.

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