Impact of EurepGAP on small-scale vegetable growers in Kenya

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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 African (SSA) countries exporting significant volumes of fresh fruits and vegetables to the EU. In Kenya, export horticulture is now the fastest growing sector of the economy. Estimates indicate that over one million livelihoods in rural sub-Saharan Africa depend on UK consumption of imported fresh fruit and vegetables. In Kenya, small-scale growers play a significant part in this process, accounting for an estimated 50 per cent of production.

Consumer pressure, protection of brand image, stricter food regulation in the EU during the 1990s and the need for access to a due diligence defence drove retailers to develop strict commercial standards, culminating in the introduction of the European Retailers’ Protocol for Good Agricultural Practice (EurepGAP). Since its inception, EurepGAP has been the main driver for change in producer and exporter practices. Currently, 30 of the retailer members of the Euro-Retailer Produce Working Group (EUREP) control 85 per cent of fresh produce sales in the EU, and their standards go much further than the legal minimum specified under EU regulations for food of non-animal origin.

Large-scale commercial growers have found it relatively easy to comply with EurepGAP as they already have access to the necessary financial, infrastructural and human capacity. In contrast, it is often reported that small-scale growers (farming 0.1-1.0 ha) find EurepGAP a major challenge as they lack the necessary infrastructure and trained personnel and do not have the finances to support adoption and maintenance of EurepGAP without external help.

Can small-scale growers in Kenya remain viable?
In 2006 as part of ongoing research in Kenya covering data since 2003, a survey encompassing 11 out of 18 of the major exporters in Kenya (including the four largest companies that control 80 per cent of produce exports to the EU) was undertaken. Its purpose to understand trends in the position of small-scale growers, and illustrate incentives for them to continue being part of EurepGAP.

Prior to 2003, the majority of exporters relied on casual purchases of vegetables from large numbers of small-scale growers via a system of brokers. Following the introduction of EurepGAP 2.1 in September 2003, the exporters were obliged to try to certify growers. At this time 9,342 small-scale growers with an estimated 45,000 dependents (family and waged labour) were involved.

Three years later, 60 per cent of these small-scale growers are no longer directly supplying export markets. This apparent drop in market access is not solely attributable to the advent of EurepGAP. While it is true that some farmers have been dropped by their export company or withdrawn from compliance schemes as a direct result of inability to either comply or retain compliance with EurepGAP, other farmers have taken personal decisions to drop out. And furthermore, the figure of 60 per cent should not be translated into total exclusion. All remain in farming, selling to local markets as they did before, and many continue to sell to exporters who sell to less stringent markets – such as in South Africa. A small number have been absorbed into groups managed by other export companies and are still trying to achieve EurepGAP compliance. The potential turnover in non-export markets will be lower, offset in part by lower initial and recurrent costs through no EurepGAP compliance and more...
Our research indicates that for small-scale growers, the primary reason for exclusion is financial viability rather than technical ability to meet the standard. Feedback from companies’ management indicated that further reduction in smallholder involvement was planned for 2007.

**The financial burden for small-scale growers**

From the companies surveyed, 1,978 small-scale growers have been supported by exporters and donors to get EurepGAP certification. Establishment of EurepGAP for these small-scale growers cost at least £2,340,000, equivalent to £1,183 per grower. On average, farmers paid 36 per cent, exporters paid 44 per cent and donors paid 20 per cent of this cost. Maintenance of EurepGAP for these small-scale growers cost at least £1,500,000, or £760 per grower, of which farmers paid 14 per cent (averaging £104 per farmer). Actual farmer contributions ranged between schemes from £1.10 to £175 per grower for smallholder (0.1-1.0 ha) groups and £1,183 for ten larger individually certified farms (≥10 ha). Smallholder incomes from export sales range from £98 to £1,250 per grower per annum, with most making £200 per annum.

**The supply chain’s financial investment in small-scale growers**

Standards compliance is not possible without external support and can only be maintained with significant financial inputs from export companies or donors. All farmers complained of investing most or all of their individual or group savings in the EurepGAP compliance process, and the majority felt that these costs were not balanced by an increase in price for compliant produce. Four companies offered credit support for standards activities, recovering loans via produce sales, and two companies operated a cost-sharing scheme for farm and infrastructure with the company contributing between 20 and 50 per cent of the initial investment costs.

Donor support has been a significant factor in encouraging attempts to comply with EurepGAP, mostly in the form of training, laboratory analyses and certification costs. Exporters and farmers express concern that donor inputs are not coordinated, do not seek involvement of the stakeholders, do not provide direct support to individual farmers, and take no account of the long-term viability of smallholder schemes.

Donor subsidies for initial costs can give farmers and exporters a skewed view of the reality of producing EurepGAP-certified export crops. Hence, farmers who in reality are not going to be able to conform to EurepGAP in the long term might have been swept along (with neighbours or fellow cooperative members) in the initial stages, and dropped out when the financial and organisational reality started to bite.

Our calculations indicate that when an average farmer is asked to contribute more than 25 per cent of total recurrent costs, his or her margin slips to zero and he/she ceases to be a part of EurepGAP value chains, seeking other markets instead. This begs a key question that is crucial for donors and analysts to consider: how much added inflation in standards and their associated costs can be sustained by small-scale growers?

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**EurepGAP Protocol for Fresh Fruit and Vegetables**

The EurepGAP Protocol for Fresh Fruit and Vegetables 2.1 was introduced in September 2003 and became mandatory from January 2004. It is divided into 14 chapters with sub-divisions into a large number of control points that cover all aspects of agricultural production from seed through to delivery of the product at the farm gate. It has both environmental and social dimensions. Each control point has specific criteria for measuring compliance, and the system for measurement is via independent audits of the application of EurepGAP on the farm. The most important control points are highlighted in yellow and known as “major musts”. For a farm to pass the certification audit there must be 100 per cent compliance on major musts. The second category of control points are highlighted in yellow and known as “minor musts”, the farm must demonstrate compliance with 95 per cent of these control points at the time of the audit and 100 per cent within one month of completion of the audit. EurepGAP offers four optional routes for achieving certification but only two of these are applicable to most developing country suppliers: Option 1: Individual grower certification, and Option 2: Group certification.

**In conclusion…**

There are some positive impacts of standards. 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, provide positive incentives for farmers to improve their practices and exporters to find and secure product from these farmers.

Farmers who had attained EurepGAP certification were clearly reaping benefits from adoption of good agricultural practice, record keeping and improved hygiene. Many farmers said that they were using EurepGAP records to understand their financial viability and run their farms more commercially. The number of skilled agricultural technicians has risen and the value of skilled labour has risen.

Sustainable EurepGAP compliance by small-scale growers was found to be related to the level of commitment and resources of the export company. Only two of the schemes examined were running efficiently. Smaller export companies relied heavily on donor support, with some of them frankly saying they could not see how the system could be maintained once donor support was withdrawn.

Reducing costs is the key to sustaining smallholder engagement. The private sector is quick to invest its own resources in a system that already exists and is functioning – here contributing around 86 per cent of recurring costs. The research shows that initial costs are a barrier to entry for exporters and also farmers. Moreover, these costs are a barrier to exporters wishing to expand their supply base from small-scale growers in Kenya. It is difficult to see how in Kenya or in other countries, these high costs will be surmounted other than through persistent donor intervention. Many options exist to ensure that these investments are not wasted – such as bonds, or repayment schedules from imports. 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.