Making the Grade: African Smallholders, Agro-Food Standards and Development Assistance




Steven Jaffee and Luz Diaz Rios
The World Bank

Food Safety Journey

Wageningen, Nov 9-13, 2015

Entering the 20th Century: Prospect for Smallholder Exclusion?

Commodity Pessimism

Declining/volatile prices; traditional cash crop and food staples get less support
Attention turns to high-value export sectors

Decay of Public Ag Services

Basic services declining;
Contraction of state trading;
less privileged farmers lose access to input/output markets

Smallholder exclusion

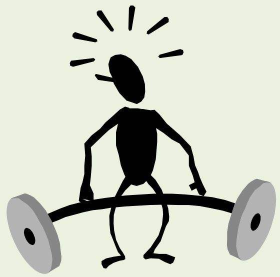
Market restructuring at global and local levels

Increased coordination: smallholder advantages eroded, firms more able to source from larger suppliers

Standards Compliance

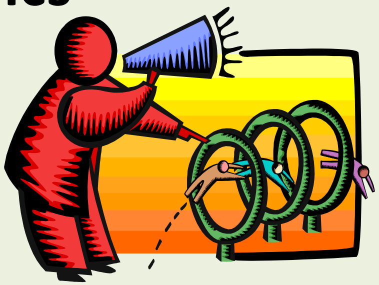
Technical inability to meet required volumes and emerging regulatory and private standards or the high compliance costs involved.

Do smallholders have a future in differentiated and competitive markets?



- **Legacy Smallholder Constraints**
  - limited access to land, water, and technology
  - limited commercial skills
  - risk averse (appropriately)
  - burdens of geography + remoteness: weak rural infrastructure
  - mixed/poor legacy of collective action
  - weak/mute policy voice; weak negotiating position

- **Intra-Supply Chain Transaction Cost Economics**
  - more specific product/process requirements
  - record keeping requirements
  - Conformity assessment of GAP
  - agglomeration of reliable, timely delivered supply
  - traceability of source

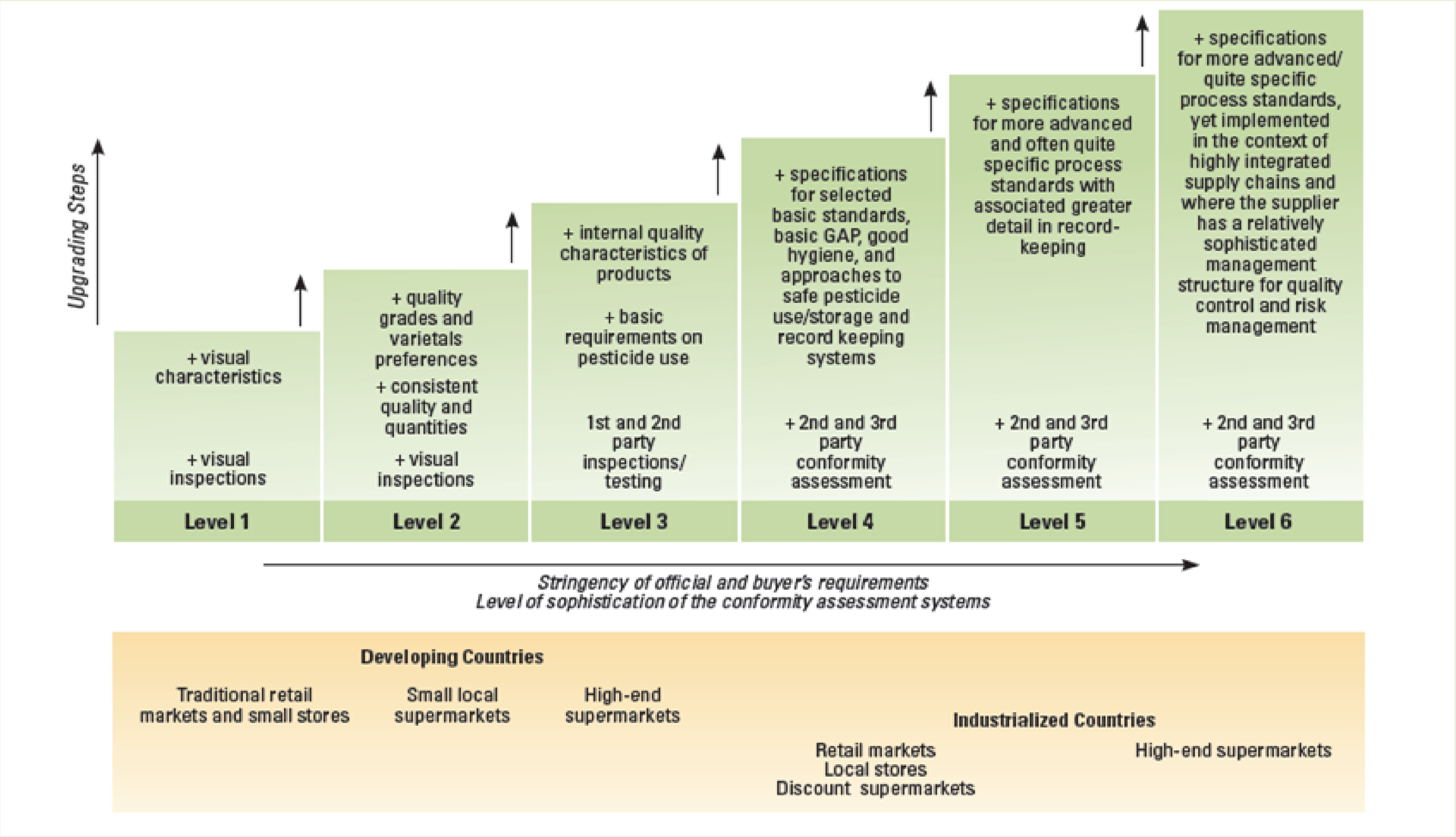


Can development assistance level an un-level playing field?

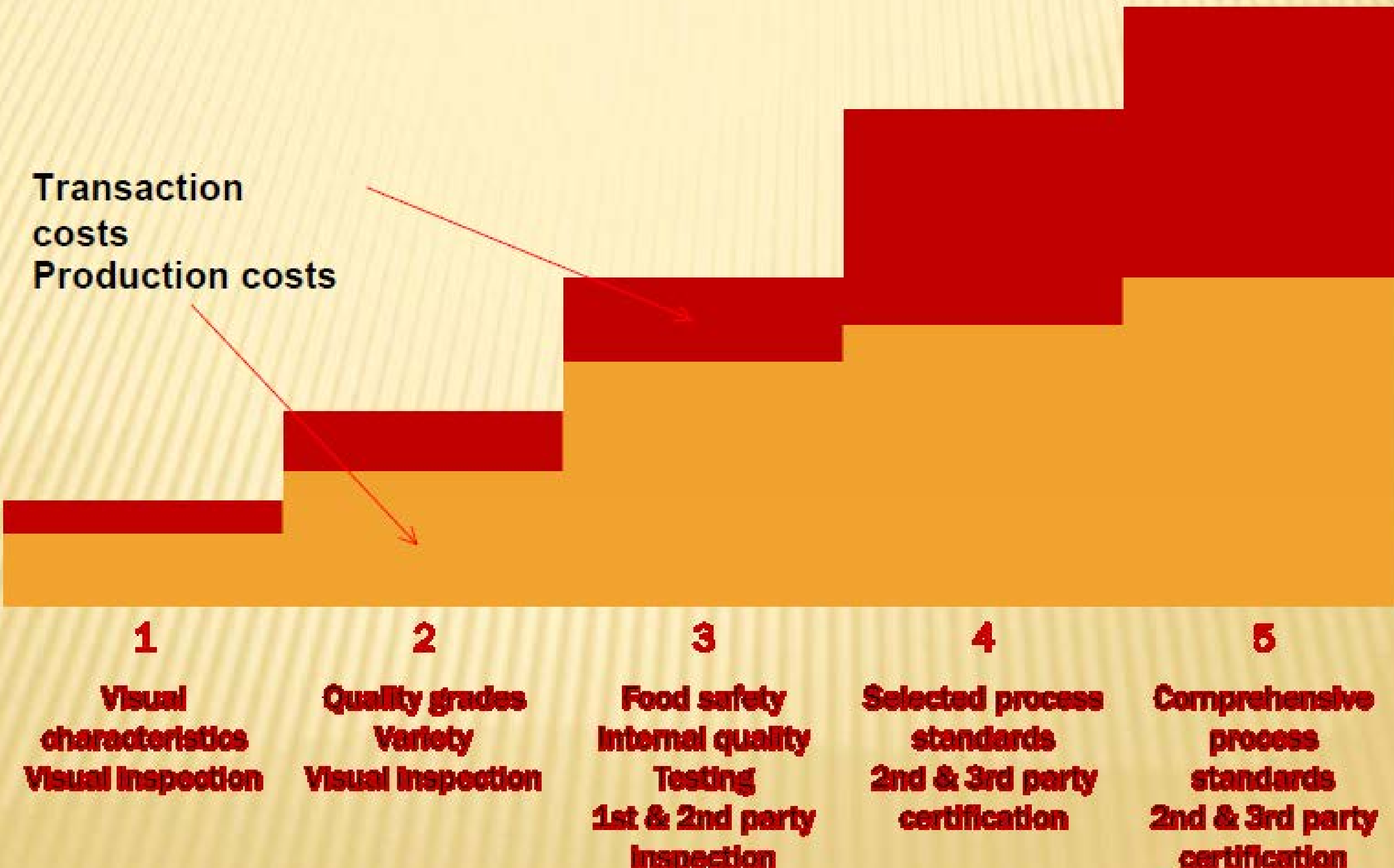
Emerging Standards and African Smallholders

- ✓ “Standards as Opportunity”
  - Small & traditional is beautiful
  - Scope to differentiate supply—i.e. organic
  - Traditional export commodities
- ❖ “Standards as Actual Barrier”
  - Technical challenges + compliance costs = ‘exclusion’
  - F&V; other higher value product exports
- ❖ “Standards as Looming Threat”
  - Beware the supermarkets!
  - Domestic market modernization

Spectrum of Markets and Standards-Related Requirements



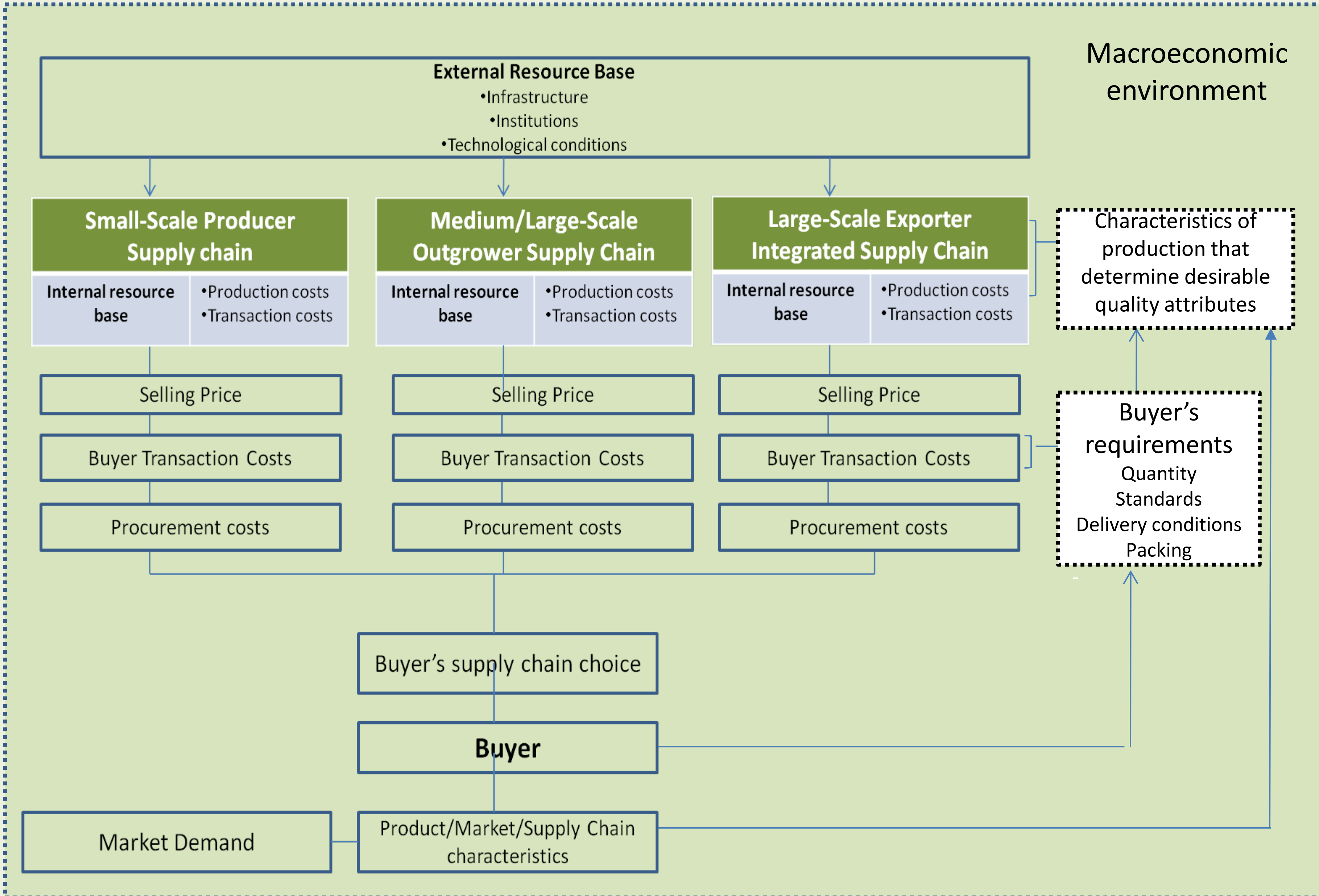
THE HIGH-VALUE CONTINUUM



Smallholder Capacities Required for Assured Compliance

Market	Resource				
	Skills in Basic Quality Grading	Membership of Farmer Group	Pesticide Application Equipment	Skills in GAP	Certification Capacity
Type 1	X				
Type 2	XXX	X			
Type 3	XX	XX	XX		
Type 4	XX	XXX	XXX	XX	
Type 5	XX	XXX	XXX	XXX	XXX
Type 6	XX	XXXX	XX	XXXX	XXXX

Buyer Choice in Procuring Raw Materials and Products: Costs + Compliance Considerations



Performance for Alternative Supply Sources

(Exporter Survey)

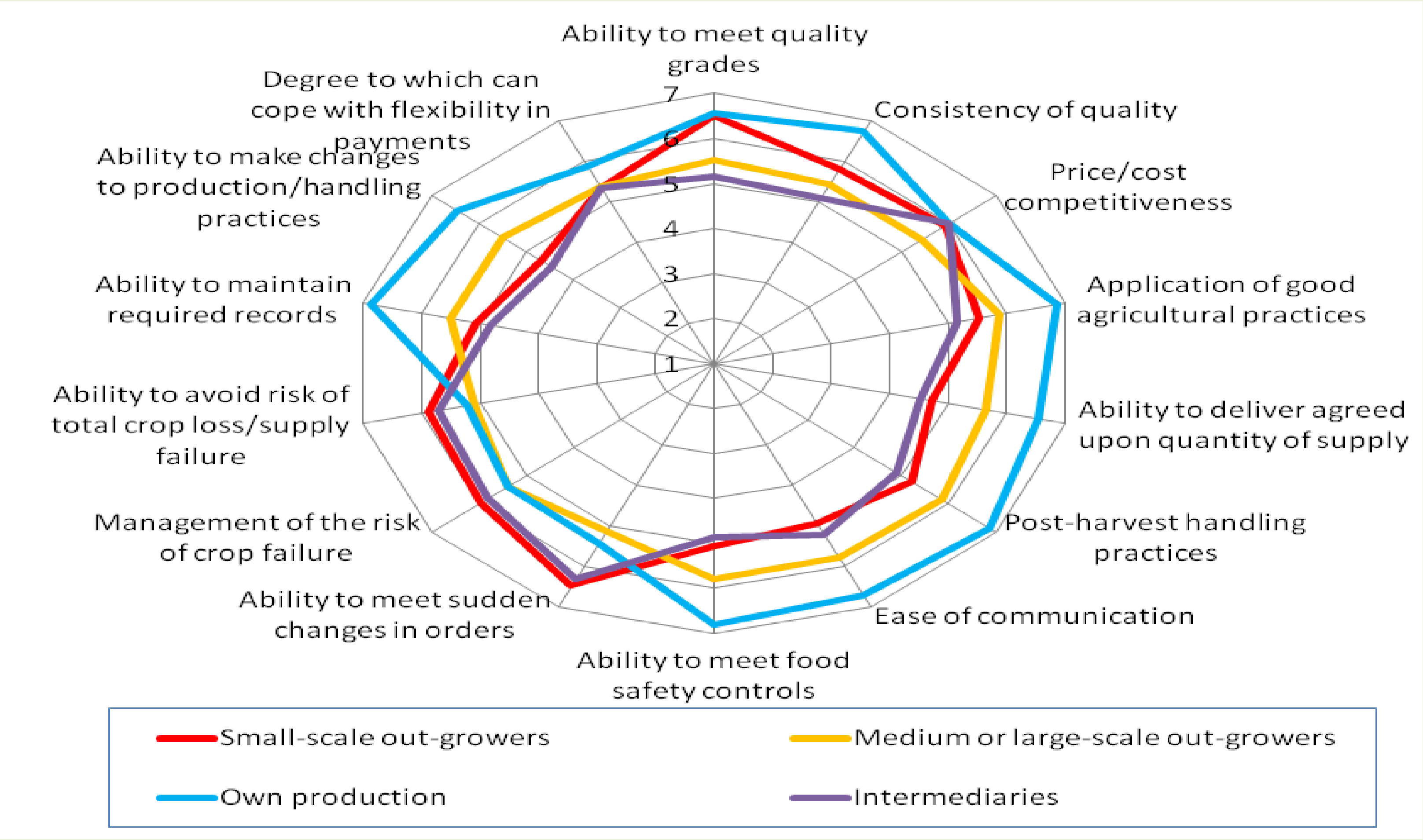
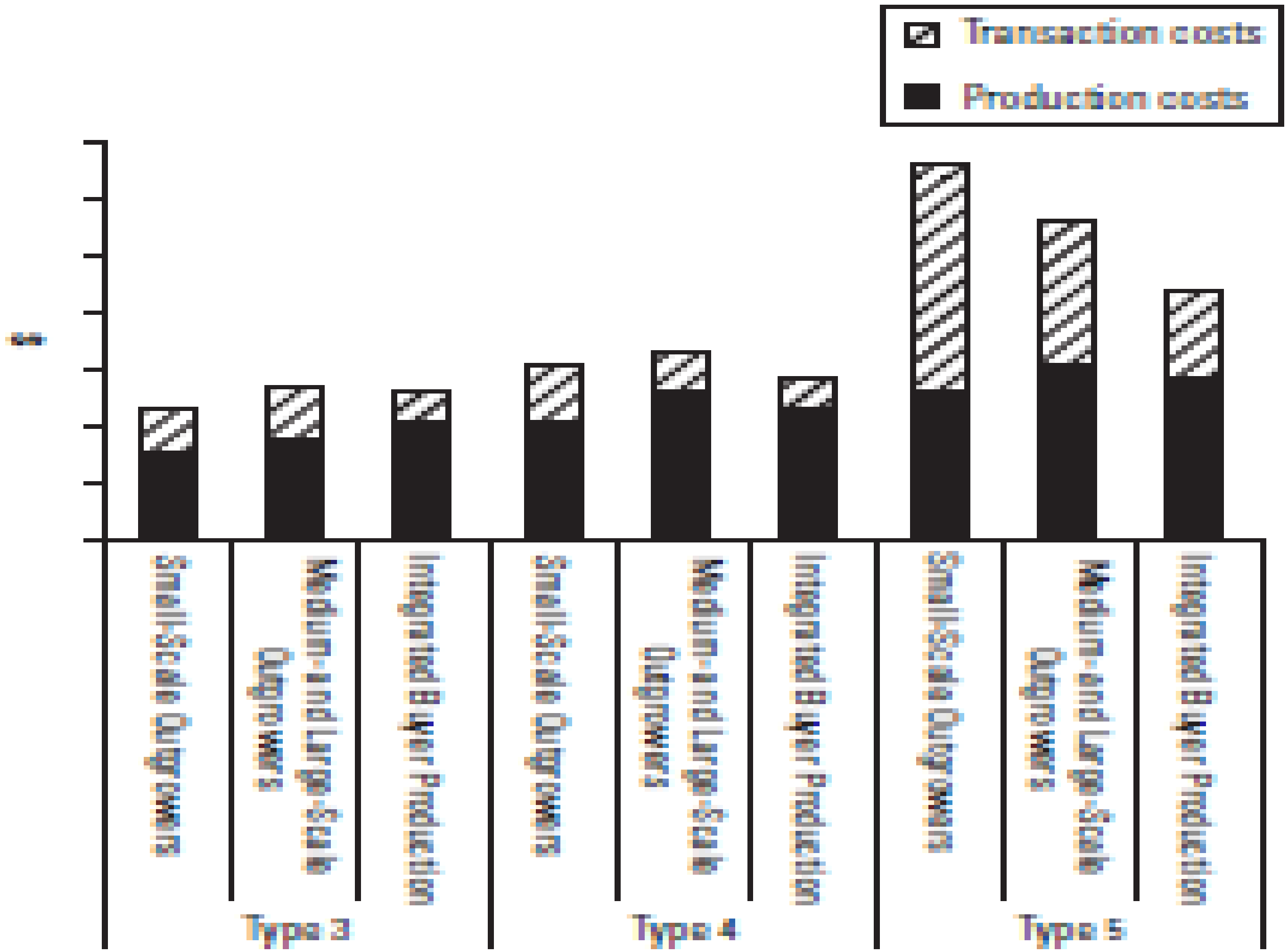


FIGURE 3.5: Hypothetical Production and Transaction Cost Profile in Alternative Value Chains for Small-Scale, Large-Scale, and Integrated Producers



Source: The Authors.

Many Donor-Supported Initiatives During the 2000's in SSA

- $500 – 600 million (est.)
  - Technical assistance, (matching) grants, concessional finance and training
  - Standards-dedicated project vs. component of broader agricultural, poverty reduction, PSD, or export support projects
- Great diversity in approach/focus
  - Regional, sub-regional, country –specific programs
  - Generic standards 'soft infrastructure' vs. targeted products/beneficiaries
  - Multi-commodity vs. value chain-specific
  - Bottom up; top down, embedded services with intermediaries
  - Institutional innovative vs. boring nuts & bolts
- Observations
  - Herd behavior, although often with low coordination
  - Bulk of resources (attention) aimed at the upper end of the spectrum
  - Little evaluation of efficacy, impact, or sustainability—or experience sharing

Most ‘voluntary’ international standards clustered at the medium to high end of the spectrum

<table>
<tr><th rowspan="3">Emphasis</th><th rowspan="3">Type of standard</th><th>Level 1</th><th>Level 2</th><th>Level 3</th><th>Level 4</th><th>Level 5</th><th>Level 6</th></tr>
<tr><th colspan="3">Developing country domestic markets</th><th colspan="3"></th></tr>
<tr><th colspan="2"></th><th colspan="4">Export markets in Developed countries</th></tr>
<tr><td rowspan="4">Food Safety (B2B schemes)</td><td rowspan="4">B2B</td><td></td><td></td><td></td><td colspan="3">BRC/IFC/Dutch Code</td></tr>
<tr><td></td><td></td><td></td><td></td><td colspan="2">Tesco Natural Choice
SQF 1000/2000</td></tr>
<tr><td></td><td></td><td></td><td></td><td colspan="2">MPS</td></tr>
<tr><td></td><td></td><td></td><td colspan="3">Several third party audits (mainly for the US market)</td></tr>
<tr><td rowspan="2">Overall Sustainable production (with emphasis on food safety aspects)</td><td rowspan="2">B2B</td><td></td><td></td><td colspan="4">National GAPs Programs</td></tr>
<tr><td></td><td></td><td></td><td colspan="3">GlobalGAP</td></tr>
<tr><td rowspan="3">Enviromental production and sustainability</td><td>B2C</td><td></td><td></td><td colspan="2">Rainforest Alliance, UTZ Certified</td><td colspan="2"></td></tr>
<tr><td>B2C</td><td></td><td></td><td colspan="2">Organic Standards</td><td colspan="2"></td></tr>
<tr><td>B2B/B2C</td><td></td><td></td><td colspan="2"></td><td colspan="2">Carbon Trust</td></tr>
<tr><td rowspan="3">Social accountability</td><td>B2B</td><td></td><td></td><td></td><td colspan="3">SA-8000</td></tr>
<tr><td>B2C</td><td></td><td></td><td colspan="4">Fair Trade</td></tr>
<tr><td>B2B</td><td></td><td></td><td></td><td colspan="3">Ethical Trading Initiative</td></tr>
</table>

Donor Program Entry Points to Facilitate Industry Compliance

Initiatives enhancing industry's external resources to comply with commercial and market requirements

Institutionalizing standard compliance in national policies

Service provision/institutional infrastructure: certification and conformity assessment infrastructure

Improving/adjusting regulatory frameworks

Private standard diplomacy/advocacy

Good practices/regulating input suppliers

Promoting public-private sector dialogue

Initiatives enhancing industry's internal resources to comply with commercial and market requirements

Collective level

Strengthening Private Sector Organizations (technical and advocy roles)

Access to information on dynamics of standards

Setting code of practice/national standards

Firm/farm level

On-Farm
Awareness
Improving knowledge/skills
Supporting GAP implementation
Crop protocols, Records
Technology options to achieve compliance
Improving managerial/entrepreneurial skills

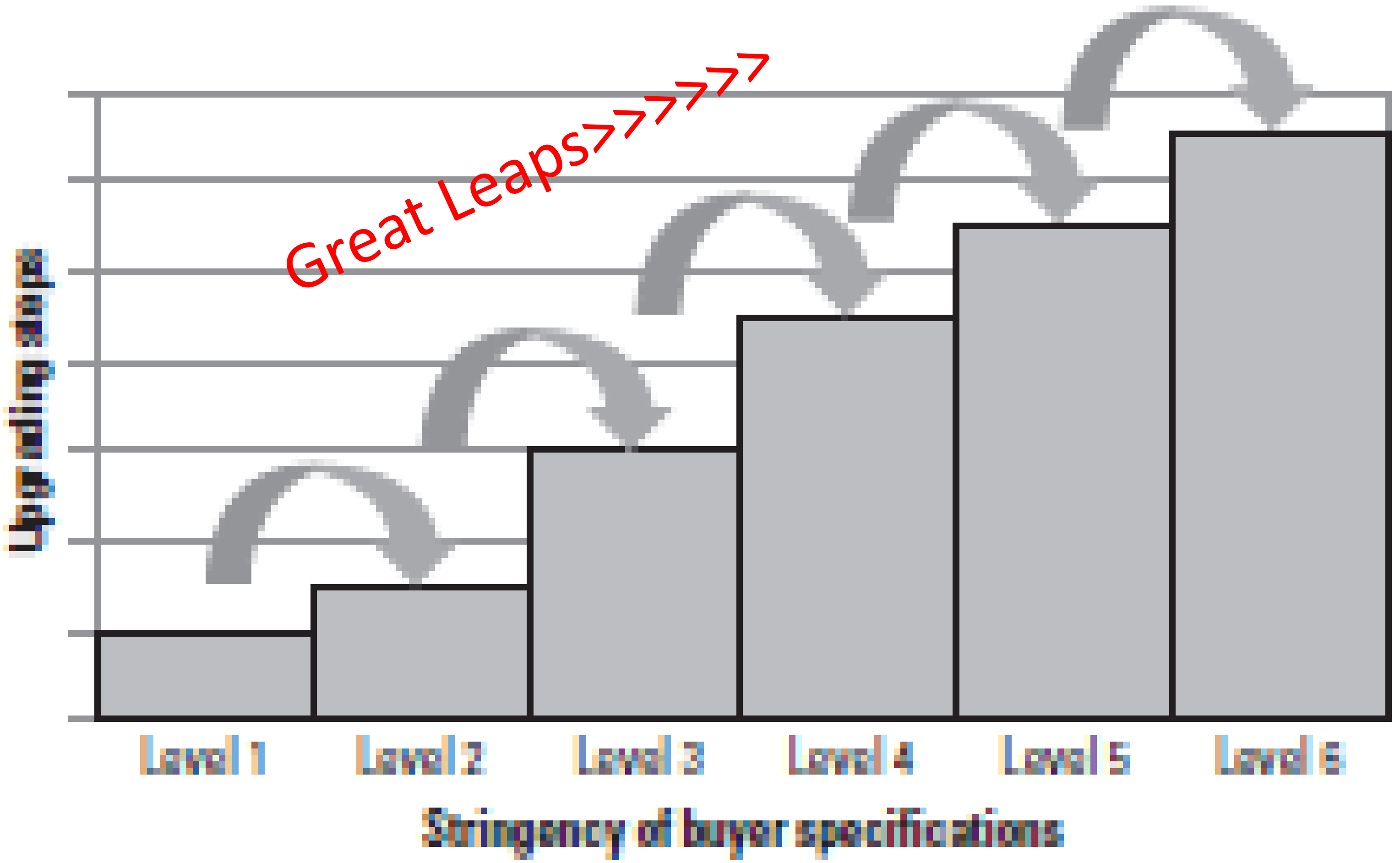
Off-Farm
Awareness
Improving knowledge/skills
Supporting GMP/GHP/HACCP implementation
Records
Improving managerial/entrepreneurial skills

Species & varieties/ input suppliers → **Production** → **Harvest/ Pos harvest/ processing** → **Transportation/ storage** → **Markets**

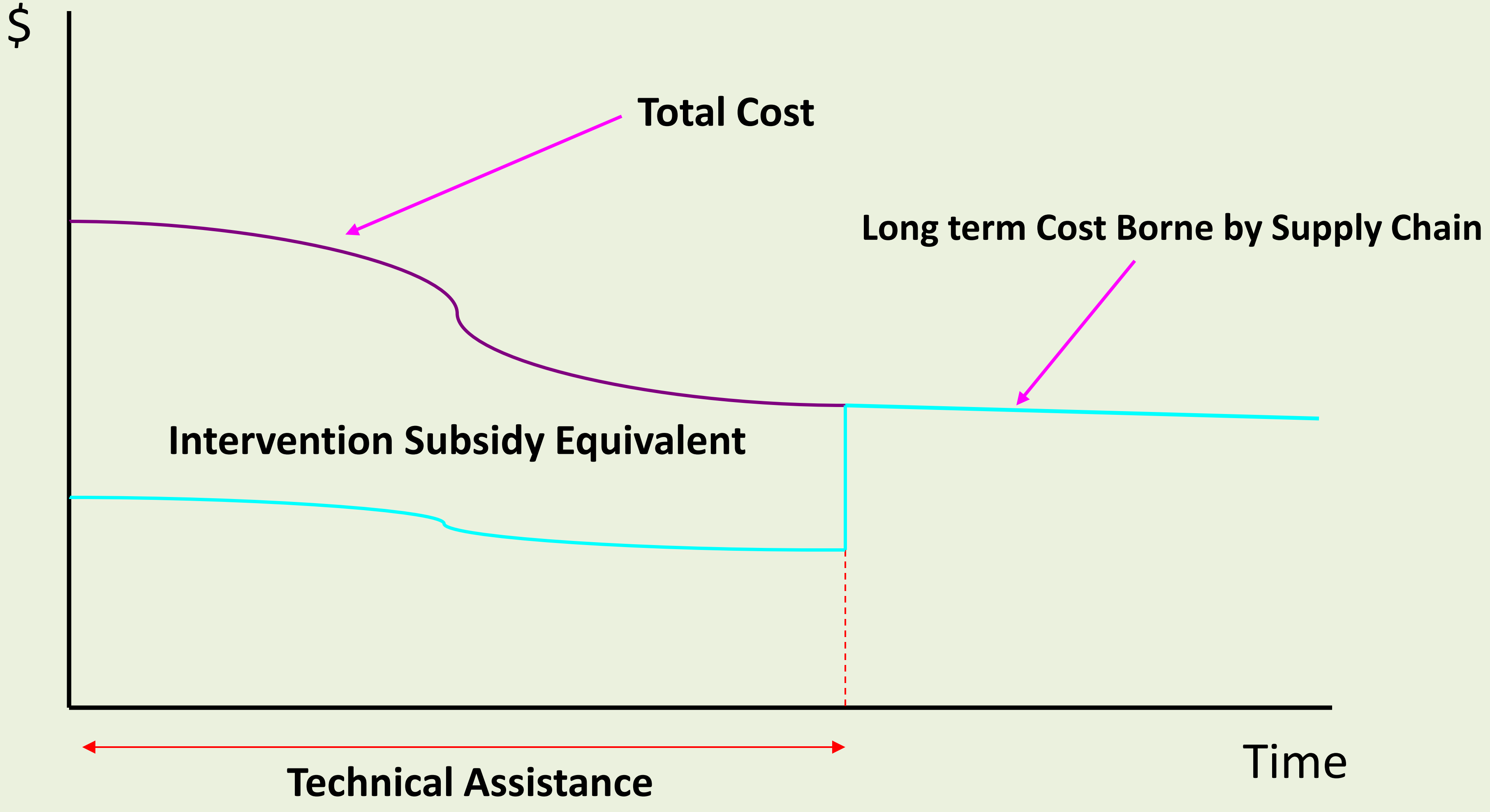
DONOR STRATEGIES

Strategy	Examples
Augment internal resources of supply chain	Farmer extension Group formation/strengthening Technical assistance to exporters Strengthen industry associations Facilitate industry 'code of practice' development Finance production/management upgrades
Augment resources external to supply chain	Strengthen physical infrastructure Modernise rules/regulations Capacity-building for conformity assessment Strengthen BDS
Off-set additional production and/or transaction costs	Direct provision of market intermediary services Cover adjustment costs Subsidy/payment for conformity assessment Payment/subsidy for buyer outreach costs
Enhance price received by exporter	Market research Trade promotion

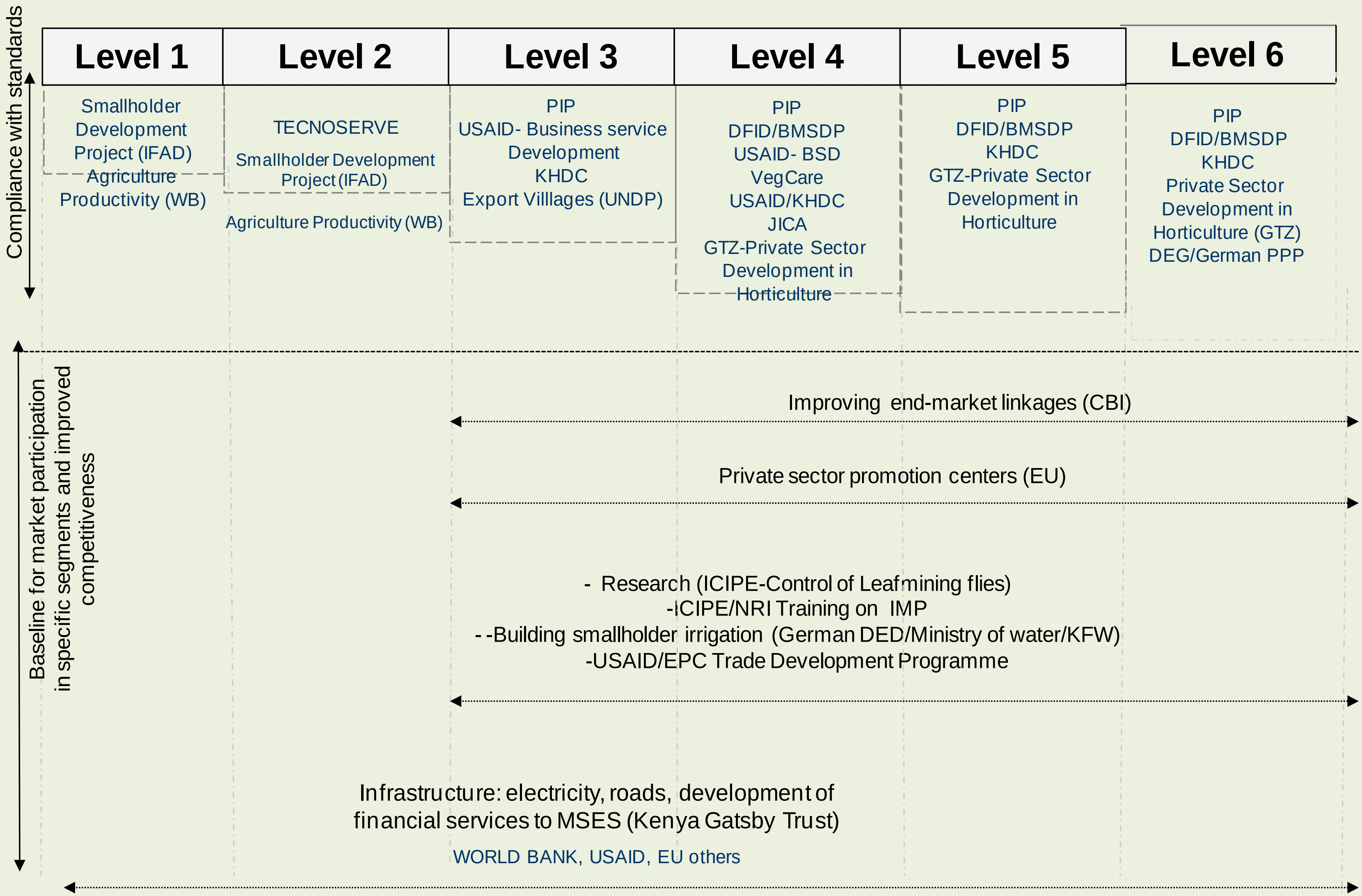
FIGURE 3.1: Upgrading Steps and Stringency of Buyer Specifications in Agri-Food Value Chains



Interventions off-set added costs in the processes of upgrading practices and systems



Framework of recent interventions in the Kenya Horticultural Sector



Selected Findings/Lessons

- **Shifting the Focus for Broader Socio-Economic Impact?**
  - Too much attention: stringent standards + niche markets + certification (5% rule)
  - "Mainstream the basics": upgrade levels 1 to 3: higher participation, higher success rate and greater spillovers –with schemes aimed at domestic, regional, and south-south markets
- **Key Success Factors**
  - Incremental upgrades; no 'great leaps forward'; no 'shortcuts to progress'
  - Standards & 'old' issues (productivity, logistics, collective action) combined
  - At higher end, presence/capacities of "lead firms"; weak/fragmented industries generally cannot effectively absorb/leverage support
- **Sustainability/Scalability/Replicability Challenges**
  - Productivity gain? Cost efficiencies?
  - Project costs per beneficiary ($10s to 1000s)
  - Capacity bridging vs. (sustainable) capacity building
  - Donor-dependence of service providers= precarious exit
  - Scalability is almost always determined by lead firms
  - Similar models have quite varied results between sites
  - Coordination to gain synergies and more cost effectiveness