

Crossfire: Certification schemes can be more of a burden than a benefit

LUIS E. OSORIO and EDWARD MILLARD

In our regular debate between two experts, Crossfire invites Luis Osorio and Edward Millard to argue the case surrounding: 'Certification schemes can be more of a burden than a benefit'

Dear Edward

Despite impressive volume and retail value growth rates of certification schemes like Fairtrade and cases of rural families who have improved their livelihoods selling certified products, it is important to be aware of the bigger picture and trends that are changing the face of global agriculture, and of the limitations and risks of certification, especially for the most vulnerable stakeholders.

Borregaard and Duffey (2005) (<http://www.iied.org/pubs/pdfs/15500IIED.pdf>) give us a taster of some of the challenges that certification schemes face:

- cost (relatively high for smallholders)
- suitability to contexts (one-size-fits-all)
- proliferation of standards and a lack of transparency

- lack of clarity of WTO regulations and certification being seen as a barrier to trade

However, let's imagine that, despite those challenges, certified agricultural products dominated the global trade scene. Will then certification stop being a burden for smallholder farmers and a hurdle for long-term prosperity in the rural areas? Unfortunately not.

Certification schemes have an inherent weakness: the more certified products become the norm, the smaller the premiums they command will be. When the ethical, social and environmental features that were unique to certified products become the norm, consumers will not be able to use them to decide which product to buy. Those features will become practically invisible and purchase criteria will go back to basics: price, quality, design and reliable supply.

Price premiums are the very reason why certification schemes have any meaning as anti-poverty strategies but, ironically, the more successful the certification schemes are, the

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less anti-poverty they will be. At the end, the bar will be raised for all agro-products, making it even more difficult for already marginalized farmers to engage with new markets.

A more realistic scenario is the one we are currently witnessing: certified products coexisting with non-certified ones in proportions that depend on variables that are difficult or impossible to control by market actors and development agents, such as consumer purchasing power and awareness, price differentials between certified and non-certified products, trade policies and consumers' trust in retailers and certifying bodies.

A key trend that will have an important impact in the certified/non-certified mix is the increase of food prices driven by the boom of bio-fuels and increased purchasing power of millions of people in China, India and other emergent economies. If the prices of commodities keep on rising, farmers who are already producing certified products will begin to switch back to uncertified and those who were thinking about producing them will postpone their plans.

This is not to say that certified products will disappear with the new trends. Certification is a marketing not an anti-poverty strategy. Well-off farmers, retailers and certification bodies will adapt to them and thrive in an environment that fosters global trade and in which buyers and

sellers do not know or trust each other and need to pay for artificial trust.

Even if the discourse of certification is full of anti-poverty wishes, its current practice makes it virtually impossible for the 2.1 billion agriculture-dependent people in rural areas living on less than \$2 a day to engage more profitably and sustainably with new markets. If certification is to become an effective anti-poverty strategy it should be used as a means to building the capabilities of marginalized farmers and their local institutions to cope with market shocks, identify market threats and exploit market opportunities. This ideal has several manifestations; for example:

- Certification bodies must build the skills of their field staff to be tutors of their clients, not just auditors who issue a verdict of 'pass' or 'fail' and recommend steps to pass the next time. They should explain to their clients the rationale behind the certification process in ways that empower them to better understand market structures and dynamics.
- If the clients are cooperatives or farm owners who hire local labour, the certification bodies should include market-related learning processes for coop members and workers as part of the certification criteria.

Certification should be used to build the capabilities of marginalized farmers to cope with market shocks

If the prices of commodities keep rising, farmers will begin to switch back to uncertified production

- In schemes where part of the premium has to be invested in development projects the certification bodies should create incentives for communities and local authorities to learn to work together instead of promoting projects that respond mainly to the perceptions of cooperatives.

This learning approach to certification may be challenging to certification bodies

Standards should not impose on producers a level of costs that could only be recovered through price premiums

This 'learning approach' to certification may be challenging to certification bodies but not necessarily to marginalized farmers and local authorities. If we are serious about sustainable development, we need to make sure that certification schemes contribute to the market literacy and resiliency of farmers and local authorities to cope with future market threats and opportunities (not just to their ability to follow a 'within farm' recipe to sell products to certain niches) and to their capacity to transform the market structures and dynamics that have led them to marginalization in the first place.

*Sincerely yours,
Lucho Osorio*

Dear Lucho,

It is good that you open the debate by referring to the larger context of global food production and the poverty of many farmers producing food. Credible agricultural certification schemes must demonstrate that they provide benefits for small-scale and vulnerable producers, not just

for already well-off farmers and the companies and consumers who buy certified products.

Where your argument takes a wrong turn for me is in asserting that certification is a marketing scheme that depends on price premiums to sustain it. The major certification schemes—such as Fairtrade, the organic movement, the Forest Stewardship and Marine Stewardship Councils and Rainforest Alliance—are non-profit bodies that aim to improve the economic, social and environmental situation of farmers, other types of producers and workers who supply raw materials and manufactured products into global value chains. The standards of these certification bodies vary in emphasis but their mission is broadly common.

As you rightly point out, to achieve that mission, these schemes require standards that are relevant to the context of small-scale producers and that do not impose on them a level of costs that could only be recovered through unsustainable price premiums. Standards usually consist of three levels: principles, criteria and indicators. Principles express the core purpose of the standard, and criteria describe the actual practices in line with those principles. The third level, indicators, enables standards to come down to the local context, in discussion with local producers, communities, government representatives and other stakeholders.

The organizations cited above all belong to the International Social and Environmental Accreditation and Labeling (ISEAL) Alliance, which has developed a Code of Good Practice for Setting Social and Environmental Standards (www.isealalliance.org/code). The Code requires that standards be set in open, transparent, participatory processes, that the standard is shown to be needed and that it includes measures to ensure that marginalized stakeholders have a say in its development.

It is fair to say that making positive changes in practices at origin implies costs, such as writing a forest management plan, improving storage facilities, withdrawing production from adjacent to a water source or introducing health benefits for employees. However, recovery of costs does not depend only on price premiums. Many farms report an economic return from improving their practices. Productivity increases, quality improvements, reduced use of inputs, a healthier labour force will all impact positively on revenues. Certification standards include the wider community too. For example, forest certification looks hard at whether the rights of local residents to access resources are respected and whether there is any damage done to their environment.

A certification audit itself bears a cost, but to reduce this to a minimum, certification bodies have trained local

auditors and accredited local partners. They have developed systems for certifying groups and this very system can bring benefits beyond cost-effective certification. A certified group has to keep records of all its members, train local technical staff to assess their compliance with the standard and determine which members can be audited. This process strengthens producer groups, makes them more transparent and communicative with their members. Stronger groups will have better access to business or financial services to assist their growth and be better able to manage the market, just as you rightly advocate.

Last year in Côte d'Ivoire I asked a number of cocoa farmers why they joined a certification scheme. They said that they were attracted mainly by the price premium at first, but as they learned about the standard, they came to value its practices. Improved management of soil and water protected their cocoa plants from drought, they got access to training and extension and realized the importance of not letting their children pick up machetes or carry heavy loads. They felt proud to be certified and showed me their certificates. They thought it was wonderful that an international buyer knew it was their cooperative that had supplied the cocoa.

Certification schemes do not operate only at the market end. For sure, they have a market presence, through a seal or logo

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that companies use to show they have bought from a certified source. This seal communicates the principles and criteria of the standard, which become part of the product's value proposition. If adopting the standard becomes the norm, and differentiation is eroded, the market would still provide an incentive for certification. Companies not bearing the seal would increase their market risk. Once ethical behaviour is standard practice in supply chains, markets will indeed have been transformed.

The certification movement has made companies and consumers aware of the production end of the value chain. It has highlighted practices that maintain poverty and may threaten the health and safety of workers, such as low prices from intermediaries, subsistence level wages, children working in school hours or fruit pickers handling chemicals without protective clothing. Even when local laws exist that ban such practices, authorities are under-resourced to enforce them. The market is a powerful force for changing practices. Certification protects many poor and vulnerable people by upgrading behaviour in the value chain and thereby contributing to sustainable development.

*Best wishes,
Edward*

Dear Edward

First of all, let me respond to some key issues that caught my attention:

The non-profit nature of some certification bodies does not mean that they do not have to behave as sustainable businesses or that the whole certification industry is not a good profit-making machine. I doubt that corporations like McDonalds, Starbucks, Unilever or Wal-Mart are eagerly embracing certified products with a non-profit motivation. Last year McDonalds said: 'the move [of selling certified coffee...] led to a 15% increase in the number of cups of coffee sold every day [in its 1,200 restaurants in the UK]' (The Guardian, 5 October 2007).

I agree with you that the process of certification can benefit producers in more ways than just price premiums. However, your example from Côte d'Ivoire supports my point that premiums remain the main hook of certification schemes. Without them there are practically no incentives for producers (especially the most marginalized ones) to make the effort to commit to the certification process.

A key point you highlight is the focus of certification bodies on international trade and high-value products. Unfortunately, this reduces their ability to contribute to the engagement of marginalized farmers with local markets and lower-value commodities. These markets are less risky and demanding, and marginalized farmers could use them as an opportunity to gradually learn how to comply with more demanding standards and respond to future market

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Can certification schemes help the vast majority of marginalized farmers?

changes and shocks (if they so desire). Staple food and traditional cash crop commodities have an important potential for mass poverty reduction. This idea is more important than ever in the face of rising food prices worldwide.

Certification schemes that are locally designed and managed, adapted to local needs, less complex, less costly, and modular and gradual in their implementation could contribute to unleashing said potential for the benefit of millions of marginalized farmers. In Peru and Sri Lanka, our teams in Practical Action are experimenting with certification schemes in dairy products and native paddy rice respectively that show some of the mentioned features. Preliminary evidence suggests that they are creating opportunities for collective learning, trust-building, collaboration and innovation, and opening the doors to new local markets for marginalized farmers and other market actors. In these cases, trust is provided by multi-stakeholder bodies that value their reputation and where social control exists amongst their members.

As I mentioned in my initial message, access costs and suitability to context are still two of the challenges that the certification industry faces. However, I am not using them to build my argument. Focusing the debate on them would mean losing ourselves in the operational aspects of certification (which can,

in principle, be improved) and, quite possibly, nurturing the illusion amongst policy-makers, donors and the public opinion that the current approach to certification is a credible contender against rural poverty. Instead, we need to take the debate into another level.

This is not about to what extent certification schemes can work sustainably (the evidence is showing that they can). The question should be: can certification become a sustainable poverty reduction force for the vast majority of marginalized farmers? If the answer is 'no', certification schemes will remain a burden for them.

I would have totally agreed with your initial assertion if you had put it this way: credible agricultural certification schemes must demonstrate that they provide benefits for *the vast majority of small-scale and vulnerable producers and build their capacity to respond to future market changes/shocks*.

The parts in italics should be fundamental components of the DNA of a much-needed breed of certification schemes and bodies that can withstand the acid test of rural poverty.

Sincerely yours,
Lucho

Dear Lucho,

You have opened up the question of whether certification schemes are more of a burden than a benefit to whether

they can be a major strategy for rural poverty reduction. In fact, there is much to recommend certification as a relevant and far-reaching strategy that provides millions of small-scale and vulnerable producers an opportunity to improve their economic situation and respond more effectively to market fluctuations. The Colombian Coffee Federation measured increases in farmer yield and income from participating in Rainforest Alliance certification. It found that the 90,000 certified farmers produced as much as 20 per cent more coffee per hectare and earned a total of US\$1.60 million more than non-certified ones. The economic benefits of certification are wider than price premiums. Even allowing for the costs of applying new practices, such as additional labour, improvements to storage facilities, protective clothing, 20 per cent increased production is a positive result for a poor farmer.

In the same way, the additional costs for a company from supporting a certification scheme (such as higher sourcing and processing costs, new packaging and perhaps investing in the origin community) must be recovered through increased revenues; if not, it would become a burden on companies that would not be accepted by shareholders. Companies are supporting certification at an unprecedented rate precisely because they get value from it. A certification seal tells consumers that an indepen-

dent audit has taken place of the claims that companies make on a product label. The internal control system the sustains the certification audit provides companies with traceability in their supply chain and corroborated information that the practices where their raw materials are sourced are complying with a set of practices defined by the certification standard.

This same internal control system that records and monitors all the details of farm practice has value for rural producers too. Byers, Giovannucci and Liu (*Value-Adding Standards in the North American Food Market*, FAO, 2008) note that traceability and better record keeping may assist farmers rationalize production and cut input costs (for example through a more efficient use of agrochemicals). They add that complying with standards may improve market access through enhanced product quality and improvement in the image of the farm or company. Labour standards may reduce worker turnover, absenteeism and accident and sickness rates, thereby reducing costs and raising productivity. They may lead to better health conditions for farmers and farm workers. Compliance with environmental standards may improve the management of natural resources on which farmer livelihoods depend and enhance the farmer's relations with the local community, including its suppliers and lenders.

Bringing farm workers into the discussion as well as farmers is appropriate. Millions of poor people who do not own land earn their living providing labour to large and small farms alike. A standard properly grounded in local realities may recognize the informalities of casual labour markets but nevertheless ensure that workers are protected in issues affecting their level of pay and occupational health and safety and that children are not employed when they should be at school. Through the auditing process, certification systems provide monitoring of compliance well above the level of local law enforcement. Thus, even when particular criteria of a standard may require no more than adherence to the local law, certification can make the difference between compliance and non-compliance.

The productivity of millions of poor people is being affected by new challenges, such as climate change, water shortages and land pressure from the growth of biofuels. The response to these challenges needs to include increased agricultural productivity, protection of biodiversity, enlightened public policy, and commitment by all governments to negotiate and comply with international agreements with a genuinely international vision for our shared planet. Certification schemes are not a silver bullet for poverty reduction but they do help build public awareness of issues affecting tropical countries where much of the world's food is grown by bringing those issues right down to the supermarket shelf.

*Yours,
Edward*