



POLICY BRIEF

ENHANCING MARKET ACCESS THROUGH IMPROVED STANDARDIZATION, CERTIFICATION, AND PRODUCER AGGREGATION MODELS

The Catalytic Sustainable Agribusiness Investment (CSA-I) project aims to accelerate the deployment of capital in climate-smart agriculture enterprises and projects. One of the project's goals is to improve the enabling policy environment for CSA investment. Collaboration with stakeholders led to a barrier analysis that identified three key issues to serve as the basis for a series of policy briefs. This brief examines how enhanced product standardization and certification schemes as well as producer aggregation models can improve access to market and stimulate climate-smart agriculture investment.

I. Introduction

Constrained access to market is a major barrier to investing in the smallholder producers and small agricultural businesses that supply a majority of Kenya's agricultural produce. This is due to a range of factors, including: physical distance to market places, small production volumes, high transaction costs, low quality of production, and an unsophisticated understanding of demand. Financial institutions' willingness to extend credit to smallholder producers and place capital in agricultural businesses depends on the recipients' repayment capacity, which is partly a function of their ability to access relevant markets and commercialize their products.¹ Therefore, limited access to market may lead to limited access to credit. Similarly, sustained market access is an important indicator for investors to evaluate the bankability of producers and businesses,² further limiting smallholder options in accessing finance. This brief examines the role of standardization and certification schemes and producer aggregation models in improving access to market.

I.1 Standardization and Certification

Standardization and certification are important tools for enhancing market access and access to finance for CSA. In the Kenyan context and in this analysis, *standardization* and *certification* are distinguished in terms of their mandatory nature. To demonstrate minimum safety and quality criteria, and as a requirement to access formal markets, all products, systems, processes, and services are required to comply with Kenyan national *standards* and regulations (i.e. the Kenya Standard provided under the *Standards Act, Chapter 496*).³ National standards increasingly draw from international norms to facilitate greater accessibility to local and international markets.⁴ To access formal markets, businesses and producers must meet required standards. Product and service standardization is essential to reach adequate levels of replicability, quality, and quantity. In addition to these mandatory prerequisites for accessing formal markets, a range of voluntary *certification* schemes exist, adding value through compliance with higher quality and assurance benchmarks. Certification can attract investment insofar as it indicates businesses' economic feasibility and competitiveness in emerging markets. Through the mainstreaming of CSA criteria in both mandatory and voluntary processes, opportunities for enhancing the adoption of climate-smart management practices abound.



1.2 Producer aggregation

Aggregation models are emerging tools to enhance market access for small producers and scaled-up investment in the Kenyan agricultural sector, with increasing importance for CSA. Through these models, producers may obtain better understanding of consumer markets, receive training and technical support to improve their productivity, and can tap into financial services such as loans and insurance delivered by or in partnership with aggregators. Furthermore, aggregation models can contribute to better standard and certification adoption, and are thus not only an independent tool for improving market access but can also catalyze the mainstreaming of CSA principles into agricultural production practices. Recent developments in the Kenyan investment environment show that aggregation or outgrower models bear considerable potential in streamlining CSA and CSA-related approaches, such as conservation agriculture, into everyday farming practices while also facilitating investment into CSA.⁵

2. What is the Issue?

2.1 Standardization and Certification

In the Kenyan context, the integration of CSA criteria into existing standards and the development of new CSA-benchmarked certifications face several institutional and procedural obstacles. Obstacles in standardization include: (a) procedures and requirements can be burdensome and difficult for entrepreneurs to comprehend, including lengthy certification and accreditation procedures, third-party certification, and product labelling; and (b) complex processes for developing and/or integrating CSA-specific standards and criteria into existing frameworks, due to in part to burdensome regulatory and legal authorization requirements.

Despite a catalogue of regulations for a myriad of agricultural products and practices,⁶ there is an absence of comprehensive schemes or sets of criteria explicitly focused on CSA performance.⁷ Without defined CSA criteria in existing standards, related practices fail to gain market recognition and producers and businesses are placed at a disadvantage when implementing CSA practices as compared to conventional production. While environmental priorities are highlighted as a strategic objective in the National Standardization Strategy⁸ of the Kenya Bureau of Standards (KEBS), the Kenyan government recognizes that there is a lack of robust production performance standards as applied to the environment, including CSA practices.⁹ Although standards are revised on a regular basis, current challenges such as environmental protection and climate change mitigation and adaptation are inadequately addressed.¹⁰

The lack of CSA-specific standards in the *National Standardization Plan (NSP)* causes the economic and environmental benefits derived from CSA-practices to accrue without market recognition. In January 2017, a new strategic *National Standardization Plan (NSP)* was approved for 2016-2019.¹¹ This plan provides a framework for decision-making and prioritization processes that develop standards supporting Kenya's *industrial transformation program for 2015-2025*¹² and Kenya's *Vision 2030*.¹³ The NSP clearly identified agricultural production as the priority economic sector for standardization efforts, and climate-change related issues (e.g. environmental conservation/protection, drought emergencies, and food security) as non-economic priorities that contribute to the social impacts stemming from the country's ongoing development. While the NSP lists the key benefits deriving from improved standardization in the agricultural sector, including the facilitation of market access,¹⁴ it neither makes an explicit reference to the mainstreaming of CSA standards nor indicates that future agricultural production could profit from an alignment of standards with CSA practices.

2.2 Aggregation

Developing effective aggregation models requires coordination and may entail high costs. Across the globe, only 5-10% of smallholders belong to formal producer organizations.¹⁵ Organizing numerous and dispersed producers within one group involves high transaction costs, which increases the difficulty of turning aggregator models

into viable businesses. From the perspective of off-takers, aggregation is not only expensive but also time-consuming in terms of forming new producer groups, building new capacities, and providing technical assistance.¹⁶ However, capacity building and technical support are particularly important for implementing CSA and directing new investment flows into this sector.

Effective aggregation models require well-integrated networks of suppliers, collection centers/warehouses, input providers, and financial service providers. With these in place, aggregation enables deeper financial penetration at various points in agricultural value chains. However, the development and durability of such networks can be difficult and expensive for aggregators to implement independently. Various economic benefits including multiplier effects resulting from aggregator models are inadequately recognized by the public sector, which is reflected in insufficient support being provided (i.e. financial, technical and capacity assistance).¹⁷

3. Potential Solutions

3.1 Standardization

Integrate CSA-criteria into existing product and service standards to implement CSA practices and enhance market access. The development and adjustment of national standards falls in the purview of the KEBS. KEBS, its technical committees, and, often, private sector stakeholders collaborate on standards development. In line with the national *CSA Framework Programme*¹⁸ and *Kenya's Vision 2030*, and in collaboration with KEBS, national standards could gradually be benchmarked against climate-smart criteria to facilitate vertical and horizontal CSA integration.

In the past, developing national standards evidenced how to effectively mainstream environmentally-friendly practices into the production and operational processes of Kenyan businesses.¹⁹ Many environmental performance standards were implemented through Kenya's adoption of the international *ISO 14000* environmental guidelines in national standards, including: environmental production standards, labelling, life cycle assessment principles, inspections, and auditing of production sites.²⁰ Following this example, the government could stimulate similar momentum for reframing existing standards in the agricultural sector against CSA-principles.

The National Environment Management Authority (NEMA) can serve as a feasible initial entry point to facilitate the mainstreaming of CSA-principles into production and performance standards. Under the Ministry of Environment, NEMA is the central regulatory body developing environmental standards in close collaboration with KEBS. As NEMA's efforts in environmental standard development and enforcement are supported and informed by multiple other government bodies,²¹ the government may consider amplified engagement in this collaboration coming from the Ministry of Agriculture and future engagement from the National Climate Council. One central responsibility of the Council will be to inform sectoral legislation and policy coordination to better reflect climate change objectives. Hence, the government may consider expanding the Council's future mandate by assigning more guidance for NEMA's standard-development process.

3.2 Certification

Develop a national CSA certification scheme that is benchmarked against existing international certifications and compliant with the concepts of CSA to hasten investment in the sector and produce positive co-benefits. While standardization is a central tool for market access and consequently for financial access, the adoption of recognized certification schemes expands the range of micro- as well as macroeconomic benefits.²² Microeconomic benefits include enhanced production efficiency, more favorable credit terms and contractual arrangements, and an improved corporate image. Macroeconomic effects include improved tax collection (e.g. in Gabon), enhanced market transparency (e.g. in South African and Gabonese timber value-chains), and increased employment. Evidence from other emerging economies has shown that certification substantially enhances businesses'

attractiveness to investors, such as Brazilian private banks tendency to provide credits to businesses that adopted a certification scheme.²³

Case Study: KenyaGAP and GlobalGAP:

Standard application and certification are proven tools to enhance market access and improve the investment environment, as evidenced in Kenya's tea²⁴ ²⁵ and horticulture²⁶ industries. To strengthen Kenya's horticultural sector, the government pursued a systematic benchmarking of national horticultural production standards against the EU's *GlobalGAP* sustainability standards to develop the *KenyaGAP* certification.²⁷ ²⁸ The *GlobalGAP* standards are international best practices for Good Agricultural Practices, and the Kenyan government sought to maintain access to the high-value horticultural markets in the EU while also benefitting from improved farm management practices.²⁹

Public-private consultations on selected agricultural commodity value-chains can serve as an initial entry point for developing certification schemes. Following the latest identification of prioritized economic sectors in the NSP through the KEBS,³⁰ the government could create momentum for the development of CSA certification for important staple crops (e.g. beans, maize, sorghum, potatoes) or animal products (e.g. indigenous poultry, fish, dairy, beef). The government may consider highlighting CSA-induced economic benefits in its next revision of the NSP, such as in the implementation and engagement plan for stakeholders prepared by the Task Force on the *National Standardization Plan for the period of 2019-2022*.

Case Study: Certification in Renewable Energy

The Kenyan government facilitated certification in the renewable energy sector and successfully encouraged investment, particularly in on-grid generation. Through the support of the Kenya Renewable Energy Associations (KEREA) and the establishment of the Energy Regulation Commission (ERC), the government has taken an active role in the promotion and enforcement of regulation and certification for renewable energy.³¹

3.3 Aggregation models

Developing aggregation models to scale up support for CSA-based extension services. Policy-makers may carefully consider the economic benefits deriving from aggregation models, including: enhanced market recognition, reduced transaction costs, stable production values, increased farm incomes, improved marketing strategies, and secured buyer-seller relationships. Aggregation also supports agricultural productivity through the provision of CSA-related extension services, technical training, and farm inputs, demonstrating how these models complement the needs of stimulating CSA-activities at the farm level. Capacity building, technical assistance, and weather information services are key for long-term CSA-implementation and attracting investors - as one conservation agriculture service provider said:

“if you don't provide extension services to beneficiaries of loans, you'll lose money and the interest of investors.”³²

The national government could consider establishing targeted incentive mechanisms for aggregators who develop close ties with and deliver long-term extension services to producers to complement public extension services, strengthen producer performance, and enhance investment attractiveness of aggregator models.

Case Study: Climate Smart Villages

Examples of aggregation support in the form of climate-smart villages (CSVs) include seven CSVs in Nyando in Kisumu County supported by the CGIAR Research Program on Climate Change, Agriculture and Food Security (CCAFS).³³ The national government provided tailored support through extension agencies to train young farmer groups and develop

integrated networks of producers, agro-dealers, and credit providers in close cooperation with the county government.³⁴

Supporting investments into aggregation models through the enhanced provision of guarantees and other risk-mitigation instruments for CSA investment. The use of aggregation models as “game-changers” for channelling private investment needs to be further examined. There are several entry points for the public sector to take action. Several stakeholders highlight the governments’ potential role in guaranteeing loans extended by aggregators which would lower investor risk.

Case Study: Partial Credit Guarantees

The government may examine the possibility of partial credit guarantee schemes (PCGS) to promote finance for CSA. A PCGS could help alleviate risk-induced investment constraints (e.g. credit records, lack of financial collateral, credible financial accounts) and offer investors satisfying levels of comfort that enable scaled-up loan provision to risky businesses and producers.³⁵ Working PCGS include examples such as Nigeria’s Agricultural Credit Guarantee Scheme Fund (ACGSF) that provides guarantees of up to 75% on outstanding loans to promote banks’ funding of farmers.³⁶ Another initiative that has shown viability is the Chinese Utility-Based Energy Efficiency Finance Program (CHUEE). The CHUEE offers partial loan guarantees to renewable-energy and energy-efficiency projects in China with the International Finance Corporation (IFC) partially covering banks’ loan-related losses.³⁷ A current example of public/donor-supported de-risking efforts in CSA investment is the United Kingdom’s Department for International Development’s (DFID) support to microfinance institutions and aggregators as part of the Finance Innovation or Climate Change Fund (FICCF) initiative. Through the provision of partial guarantees, FICCF de-risks investment for CSA and made banks more patient in terms of farmers servicing their loans.³⁸

Targeted fiscal incentives to businesses offering aggregation services and/or CSA training and related services. Incentives could be tailored to aggregators in recognition of the value being generated through extension services and enhanced producer access to market. Examples of incentives may include exemptions from tax on business profit, income tax, VAT and from consumption tax for imported farm inputs (e.g. drought-resistant seeds or organic fertilizer). (For more information of fiscal incentives see policy brief on *Increasing CSA Investment through Fiscal Incentives*).

DISCLAIMER

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