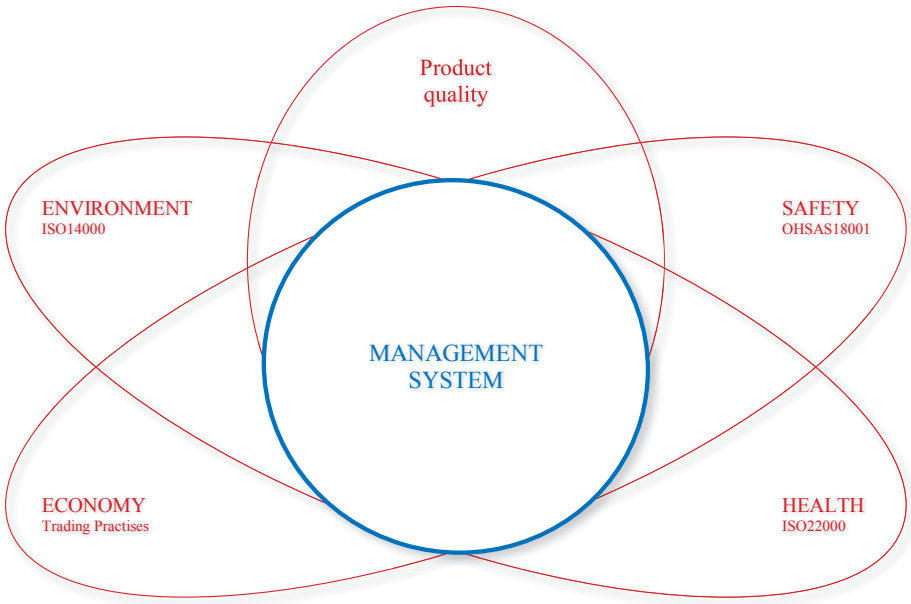

INCLUSIVE IMPROVEMENT
STANDARDS AND SMALLHOLDERS

Taking stock and moving on

Coen van Beuningen and Peter Knorringa

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Summary

HIVOS is working to achieve sustainable development and poverty reduction using a simplified generic management system as a tool. This effort has been closely monitored in pilot projects involving groups of smallholders in coffee and vegetable production in Kenya and South Africa. This book reflects on HIVOS's experiences and summarizes its successes and challenges. It argues that a sufficient basis has been found for continuation and possibly scaling up of the efforts, and it proposes a stylized interaction model as the way forward. Improvement processes are central to this book, in both its content and its structure. Improvement is seen as a never-ending process, visualized through cycles of continual attempts to do better, based on the Deming Plan-Do-Check-Act Wheel. We present two interconnected improvement cycles: an inner cycle of improvement processes by the smallholder groups themselves and an outer cycle of improvement processes in the support structure.

For the inner cycle, we argue that smallholder groups have a better chance of increasing their incomes and enhancing their empowerment if they have the capacity to autonomously manage an improvement process. However, achieving and consolidating improvements in the inner cycle is made unnecessarily difficult by the lack of coordination among actors in the outer cycle: civil society and funding organizations, trainers, standards and certification bodies, and commercial buyers. None of these actors possesses the authority and legitimacy to coordinate on behalf of the smallholder groups. But the supporting actors in the outer cycle can agree on common objectives and progress indicators. On that basis the interactions amongst actors in the outer cycle can be improved, which is a major objective of this book. In this book we attempt to develop a common language, to be used by the various interest groups in order to coordinate their activities more effectively, where and when they identify overlapping interests.

This book starts and finishes by addressing each of the different interest groups individually. The remainder applies our common language, which is based on ISO terminology, in our

view offering a consistent point of departure. To improve coordination in the support structure we propose alignment of the logical frameworks used by the various civil society organizations in the outer cycle. Finally, we conclude that the present support structure is dominated by a top-down attitude, which is not sufficiently balanced with a bottom-up attitude taking the needs of smallholder groups as the starting point. We suggest this problem be addressed by introducing reference groups as a way to strengthen the 'voice' of smallholder groups' interests in the functioning of the outer cycle.

The other main challenge, next to improving coordination in the outer cycle, is to ensure inclusiveness in the inner cycle. Experience in the pilot projects indicates that inclusiveness is possible in many cases. Nonetheless, we need to develop robust progress indicators and monitor improvement processes over longer periods to be able to fortify our basic argument; that is, a generic quality improvement process can be an important tool enabling smallholder groups to strengthen their chances of increasing their incomes and enhancing their empowerment.

Foreword

How can we support smallholders in developing countries, in a world increasingly dominated by global standards? This is the question raised by *Inclusive Improvement: Standards and Smallholders*, based on decades of field experience and solid academic work. The authors show that smallholders can enhance their empowerment and increase their incomes with a simple, but systematically applied management system. The book identifies the challenges in developing such a management system. It emphasizes also, however, that actors from civil society, private companies, and quality management entities may complicate life for smallholders by sending out very different and sometimes even contradictory signals.

Such contradictions must be urgently addressed. This book provides clear suggestions on how to deal with these tensions faced by smallholders. The proposals are not based on either a practitioner's or a researcher's perspective; rather, the authors have managed to genuinely blend these perspectives to bring the debate to a new level. Bringing together the know-how and experience of Coen van Beuningen, a senior development practitioner from HIVOS, and Peter Knorringa, a senior development researcher from ISS, has resulted in this unique blending. The book combines project experience with ongoing academic debates. It also suggests a practical way forward to better contribute to poverty reduction and sustainable development in future interventions.

The book is an output of the HIVOS Knowledge Programme, in which HIVOS works together with knowledge institutes like ISS, in this case to promote sustainable economic development. We expect this book to play a significant role in future discussions on strengthening the voice and livelihoods of smallholders as part of our common mission to contribute to poverty reduction and sustainable development.

October 2009

Manuela Monteiro, Director HIVOS

Louk de la Rive Box, Rector ISS

Acknowledgements

We have many people to thank for sharing their ideas on this tough and unfinished journey. First of all, we gratefully acknowledge the increasing trust and transparency bestowed on us by farmers, promoter farmers, board members of cooperative societies, trainers, commercial actors, and standards and certification bodies.

Second, we truly appreciate the efforts of all our colleagues and other stakeholders, who provided constructive and often detailed critical comments on earlier versions of this work. A special word of thanks goes to Bert Helmsing, for chairing a discussion on a first draft of this book with some 50 stakeholders on 5 June and to Michelle Luijben for editing the manuscript.

Implementing the pilot projects and writing this book have been interactive processes with ups and downs, successes and conflicts. On the whole, looking back on the process we gain a heartening sense of a widely shared long-term commitment to a better and more sustainable future for smallholders. We hope that people from the various interest groups will use this book as a source of inspiration to find shared ways forward.

October 2009

Coen van Beuningen

Peter Knorringa

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Part I. Setting the Scene

1. Introduction and interaction problems amongst interest groups

1.1 Introduction

This first chapter introduces our approach and positions our study in relation to other recent studies on smallholders and standards. Moreover, it highlights how different interest groups – smallholders, buyers, quality management professionals and civil society – each have their own attitude and jargon, which causes many interaction problems. The final section presents a road map for the rest of this book.

1.2 Process: The interactive approach, lessons learned and finding a way forward

This book reflects on more than 20 years of HIVOS interventions to support smallholders. It outlines an interaction model which serves as a mind map for future interventions. The main aim is to show that achieving poverty reduction amongst groups of smallholders is feasible through improving management systems.

This book is an intermediary result of interactive processes with some 200 practitioners involved in inclusive improvement. Our hope and expectation is that it will stimulate them to take the debate and practice to the next level. While reporting on some significant positive outcomes, our main aim is to improve the practice of future interventions by outlining an idealized interaction model and proposing ways to bring practice closer to the model. The tone of this book is therefore self-critical, and we draw on the tough lessons from our unfinished journey to propose ways to address persistent problems. Moreover, we identify some systemic tensions between the requirements of improvement processes and the way civil society organizations usually finance, monitor and evaluate projects.

HIVOS focuses on standards and management systems for smallholders. These can enable smallholders to strengthen their agency and exert a countervailing power against exclusionary market forces. They can also assist them in their attempts to supply higher quality markets, which offer potentially more stable rewards. Otherwise, smallholders will almost certainly be increasingly pushed out of these attractive markets. Civil society organizations like HIVOS engage in this uphill battle in order to contribute to poverty reduction, employment provision, energy efficiency and control of greenhouse gas emissions.

Next to the continued HIVOS support to development-oriented standards, three recent bottom-up pilot projects provide much of the inspiration for our proposed interaction model. These pilot projects involve, respectively, smallholder coffee cooperatives in Kenya, groups of smallholder vegetable producers in Kenya and groups of smallholder vegetable producers in South Africa.

1.3 Positioning: Why another study on smallholders and standards?

Smallholders and standards are frequently discussed. Solid recent studies exist on both the broader political economics of the role of smallholders in global agrifood supply chains (e.g. IIED 2009) and on the actual impacts of standards like Fair Trade on household-level indicators such as income (e.g. Ruben 2008). This book focuses on what happens in between. How can smallholder groups enhance their quality management capacities, and thus become able to produce a higher quality that allows them to better achieve their own priority objectives? While researchers and practitioners increasingly recognize the challenges in achieving inclusive improvement, to the best of our knowledge no other studies exist that squarely focus on these learning processes amongst smallholder groups or on how to improve the effectiveness of the support structure.

Without holding undue romantic ideas about smallholders, we do believe that many smallholder groups can improve their management capacities to a level at which they can supply to more demanding and attractive markets. Targeted interventions at the local level can enable many more smallholder groups to enter improvement cycles through which they might eventually become able to supply certified produce on national and international markets. By no means do these local bottom-up efforts replace top-down initiatives, like promoting consumer goodwill for certified produce such as that sold under the Fair Trade and Organic

labels – rather, they complement and reinforce these. Successful local bottom-up pilot programmes reinforce confidence in the effectiveness of development-oriented standards and thereby increase demand for the certified produce supplied at least in part by these newly certified smallholder groups. Moreover, improving management capacities is not only useful for smallholder groups aiming for certification according to formal standards. In domestic markets less formalized standards are gaining importance, for example, for supplying to the domestic retailers that are rapidly expanding their market share. Thus any smallholder group can benefit at its own level from adopting a more systematic management approach to improving quality.

Increased autonomous management capacity will not solve all of the problems that smallholders face. But we feel justified in focusing on strengthening such capacities because they are so important and have yet to receive sufficient attention. Moreover, group-level improvement processes, while increasing produce quality and consistency, offer a potential starting point for empowerment and political agency by smallholders.

1.4 Language: Interest groups share some objectives but use different languages

A key obstacle to achieving improvement is that the four main interest groups – smallholders, buyers, quality management professionals and civil society – each have their own attitude and jargon. We therefore start by addressing these main interest groups individually in their ‘own’ language. One important actor is missing from our choice of key interest groups, that is government, and more specifically public regulators and enforcing bodies. Obviously, they too play a potentially important role in terms of both regulating and facilitating processes, as rules and standards are meant to be complementary. Basic regulations regarding the management of organizations -- for example, cooperative laws -- are of great value, but gain additional worth when smallholder groups implement them in their own way. In creating this additional value, our experiences in the pilot projects suggest that government agencies do not lead but follow the processes set in motion by our four main interest groups.

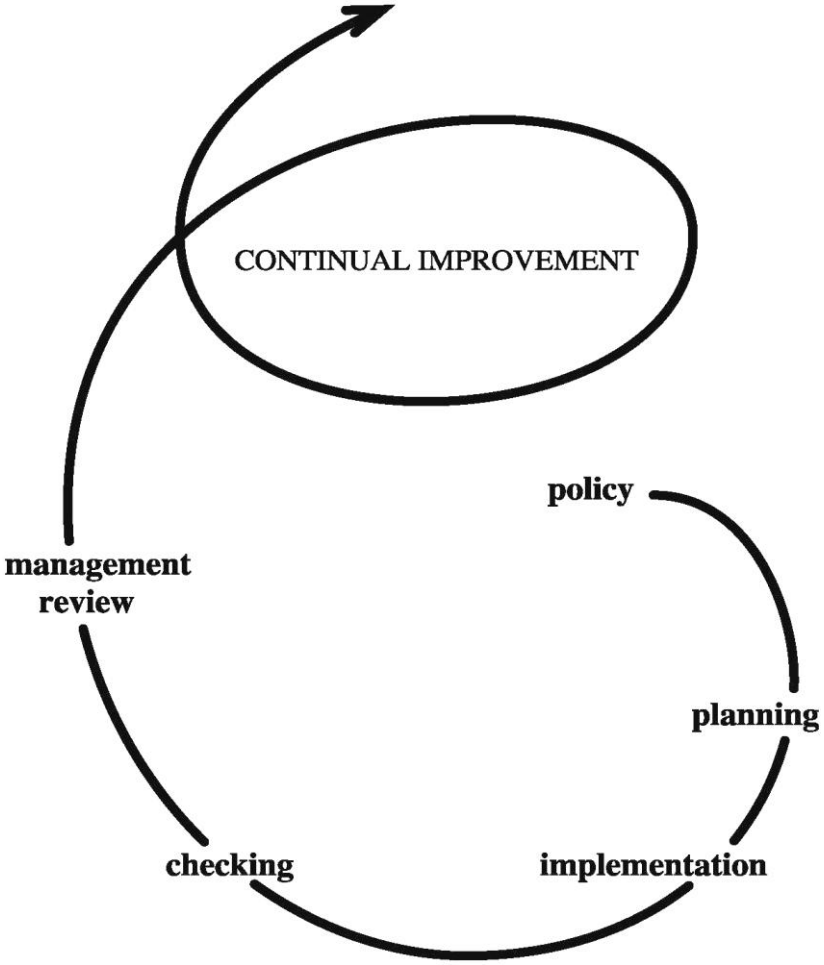
1.4.1 Smallholder groups

A smallholder is a producer whose scale of operation is too minute to maintain a position in the market and for that reason must operate as part of a group of comparable producers, bulking their product so as to secure a market position. The pilot projects on which this book is based involve smallholder farmers in cooperatives bulking their coffee and vegetable produce in Kenya and South Africa. Their jargon relates to these two production chains and their site-specific farming methods and conditions, but it differs from the jargon of the standards and certification bodies. In fact, few of the (English-speaking) demonstration farmers, called 'promoter farmers' (each of whom trains a group of some 40 farmer families), would even try to read and understand the standards and certification jargon. For that reason smallholders often lack information on the qualities required and on markets. They often hear nothing of buyer demands, the standards applied and even issues tabled by board members of their own cooperative societies. This lack of information is partly due to the lack of translations, adaptations and common definitions in standards and certification documents. But for smallholder groups at a low entry level it is also due to unnecessary complexity meant for highly specialized forms of production. Some standards bodies do try to overcome this problem, by simplifying and presenting their standards in images (Nespresso 905). Similarly, text in training manuals has in some cases been replaced by images, photos and video clips (Compost 809).

Thus, lack of information and interaction can be said to prevent smallholders from increasing and stabilizing their incomes and enhancing their empowerment. Focused and systematic planning and reporting tools – based on thorough analysis of the specific reasons for the lack of access – can help a lot in overcoming these problems.

The entry level of a smallholder group wanting to improve its access to a market should be taken as a given. The HIVOS pilot projects offered adjusted management tools to enable the smallholder groups to move from their baseline situation to a position of increased income and empowerment. We argue that without a functioning management system, groups of smallholders will be increasingly excluded from the more attractive markets. This is not to say that smallholders must put in place sophisticated and expensive management systems. But they do need basic tools to plan more systematically and improve in each cycle of operation, creating an upwards spiral (Figure 1.1).

Figure 1.1: Smallholders need basic tools, such as the Plan-Do-Check-Act Wheel, to plan more systematically and improve in each cycle of operation, creating an upwards spiral.



Most importantly, smallholders need to internalize an attitude of improvement in order to gain sustained access to more demanding markets. We argue that this is feasible for a significant number of the smallholder groups operating above a certain minimum entry level with good opportunities as a group.

1.4.2 Commercial buyers

A group of commercial actors operates along the chain between the consumer and the smallholder groups. Those who buy from smallholders tell us that these producers need to improve their quality and, along with their trainers and funders, to shift their mindset to become more 'market oriented'. Commercial actors have their own jargon and find it difficult to spend time deciphering other jargons. They accept supply chain responsibility and are keen to take advantage of opportunities, but almost always with a short-term emphasis. We respect that perspective, but to genuinely support smallholders, buyers will also need a shift in mindset. To be assured of a reliable supply of good quality products from groups of smallholders, buyers will need to invest time and effort in nurturing improvement processes among smallholders, providing them with up-to-date market information and training them to interpret the data. Perhaps more importantly, buyers must take a longer term perspective on quality improvement by smallholders. Otherwise, groups of smallholders will be dragged along in quick fix approaches that make it impossible for them to compete with centrally managed large-scale plantations.

1.4.3 Quality management professionals

This book starts from a set of definitions developed by the International Organization for Standardization (ISO), because we consider these to be well elaborated, consistent and professional. Nevertheless, ISO formulations are often unnecessarily complex and too difficult for smallholder groups to access. Especially for low entry level smallholder groups we propose simplified definitions (Appendix 1), in the expectation that after a number of improvement cycles smallholder groups will be better able to work with the formal ISO definitions and related standards systems.

In our discussions with standardization professionals a key sensitive issue is how to combine the systemic and thematic elements in standards systems (such as ISO 14000, 18000, 22000 and 26000) with a developmental perspective (as in ISO 9001 NEN 901) and including priority setting. The standards systems discussed in this book often combine systemic and thematic standards. Systemic management professionals tend to fear that simplifications made for developmental reasons will compromise systemic requirements. We take this fear

seriously and emphasize that improvement efforts should be the same for every producer group that wishes to become certified, including low entry level producer groups. At the same time, when groups of smallholders enter into an improvement process, they need to be addressed at a level that fits their present capabilities. In many cases this means they must first work through preparatory programmes. When developing basic management skills it is crucial to ensure that these skills provide a foundation from which producer groups can upgrade towards a potentially certifiable quality management system.

Therefore, we need quality management professionals who are prepared to simplify procedures and work with trainers and civil society organizations to develop a basic and generic management module that combines two critical features: (i) adjustment to the existing capacities of smallholders and (ii) ability to provide a stepping stone to a more elaborate system. Taking on this difficult but important task could significantly increase the developmental relevance of standardization.

1.4.4 Civil society

Civil society includes persons and organizations playing a role in addressing the perceived contradictions and imperfections of the market and democracy. Excluded from our definition are producers (sellers), commercial actors (buyers), public regulators and private standards bodies. In between these other interest groups, civil society plays various roles, such as lobbying for delegation of chain responsibility, maintaining pressure on commercial parties to act more responsibly, increasing support for ethical and fair consumer labels, and funding and providing training to smallholders. In managing their interventions, civil society organizations use their own evaluation and logical framework 'language'. Thus, language and 'cultural' differences between civil society organizations and the other main interest groups tend to be a major obstacle to constructive interaction. Besides these differences we also see overlaps. For example, many people working for development-oriented labels like Fair Trade and Organic have their 'roots' in civil society, though they must now perform as quality management professionals.

Development practice changes rapidly, however, and some elements in civil society have difficulty actively participating in the change process. One key change in recent years is the elevated importance now given to the private sector's role in development. Also, various

private sector ‘tools’ have been added to the development ‘toolkit’, such as the New Public Management, the supply chain concept, and quality management processes. Taking a tool out of its original setting (be it in the private sector or the standards system) and applying it in another (development) setting, creates tensions in terms of language and logic. Here we argue that civil society organizations can benefit from selectively taking new tools on board and moulding them to create useful means to the end of increased incomes and enhanced empowerment for smallholders.

1.4.5 Conclusion

This book applies simplifications to the professional quality management language and introduces an idealized model to streamline interactions amongst the main interest groups in the smallholder support structure. The idea is to move forward towards more harmonization and consistency in service rendering to smallholder groups. Appendix 1 presents a glossary of suggested common definitions and Appendix 3 provides an extensive list of useful references organized by interest group. A CD-Rom containing all of the listed documents is available upon request. The appendices are meant to contribute to building a common language among the actors in the support structure. We suggest that unless participants in the support structure get their act together, it is unrealistic and unfair to expect smallholder groups to develop the autonomous management capacity that is a necessary but not sufficient precondition to achieve higher incomes and enhanced empowerment. No single interest group possesses the authority and legitimacy to push and shove the support structure into a more smallholder-friendly shape. But civil society organizations especially have made claims about enabling poverty reduction among smallholders. Therefore, they need to take up the challenge to find ways to improve interaction in the outer support cycle, so as to allow smallholders to increase their incomes and enhance their empowerment. This book aims to contribute to tackling that challenge.

1.5 Structure: A roadmap for the reader

After Part I on interest groups and their jargon, Part II reflects back on 20 years of HIVOS experience. First, Chapter 2 looks at HIVOS-spearheaded attempts to develop more inclusive standards. After 15 years it found that while a top-down approach was useful, the addition of a bottom-up intervention strategy was needed to achieve greater and more measurable results. Next, Chapter 3 reviews three bottom-up pilot projects to establish inclusive quality improvement processes amongst groups of smallholders. Chapter 4 continues the bottom-up angle, presenting general lessons and findings on improvement processes amongst smallholders. Chapter 5 returns to the top-down approach, providing an initial assessment of how standards could better contribute to achieving inclusive development. While Chapters 2 and 3 consolidate the HIVOS learning process related to its interventions, Chapters 4 and 5 extrapolate generalizations from these experiences and position them in the academic and policy debate.

Part III then offers a way forward. We propose solutions and make a case for their feasibility. In so doing, we move to a dynamic approach based on continual cycles of improvement. After all, improvement is a never-ending process. We visualize this as two interconnected improvement cycles, an inner cycle of improvement processes in producer groups and an outer cycle of improvement processes in the support structure. Chapter 6 proposes an inner- and outer-cycle interaction model to initiate and sustain continual improvement. Finally, Chapter 7 discusses how to get closer to this stylized interaction model and provides targeted recommendations for each of the four main interest groups.

Part II. Taking Stock: Reflecting on 20 Years of Experience and Knowledge-Building

In this Part II, Chapters 2 and 3 consolidate the HIVOS experience, while Chapters 4 and 5 draw inspiration from working documents and recent literature on smallholders and standards, positioning HIVOS's experiences in a broader framework. Chapter 2 looks back on 20 years of practice, starting with the promotion of top-down initiatives such as provision of indirect support to smallholders through, for example, support to the Fair Trade and Organic movements and activities to promote consumer confidence in these development-oriented labels. Disappointing results, however, in terms of improving the incomes and empowerment of smallholders, more recently led HIVOS to experiment with bottom-up initiatives. These directly target specific producer groups and help them to internalize inclusive improvement attitudes and practices. Chapter 3 reports on three pilot projects, two in Kenya (coffee and vegetables) and one in South Africa (vegetables). Chapter 4 draws some general findings from these bottom-up experiences, outlining how management systems can help groups of smallholders to internalize improvement attitudes and practices. Chapter 5 completes the cycle of Part II by providing a broader perspective on how top-down initiatives, like standards systems, can contribute to inclusive development.

2. HIVOS experiences using the top-down approach

2.1 Introduction

Over the past 20 years HIVOS has become increasingly involved in standardization. Strengthening the market position of smallholder groups is difficult, and standardization appears to be a useful tool to enlist consumer support for smallholder producers. HIVOS involvement with Max Havelaar and the Fair Trade movement dates from 1988. In 1989, HIVOS became involved with the Organic movement. Since 2003, HIVOS has developed contacts with other standards systems as well. The focus up to 2004 was on more regulations and more standards and certification bodies, which resulted in competition and survival of the fittest. But these standards systems are all mainly top-down and concept driven. From 2005 onwards, the negative impacts of the intense competition and top-down approach became clear.

Proliferation of standardization often has been counterproductive, especially for smallholder groups. It has compromised their overview and understanding of the market for certified produce and put consumer trust at risk. HIVOS therefore began to support an opposite trend, pushing for greater interaction, understanding, coordination and a more generic approach to standardization by the competing actors in the quality world.

2.2 Dialogue with the Fair Trade movement and support, 1988-2009

HIVOS supports the Fair Trade movement in the expectation that it contributes to better trading practices, a strengthened market position for smallholders and poverty reduction. The main Fair Trade standards systems were developed by Fairtrade Labelling Organizations International (FLO) and the World Fair Trade Organization (WFTO). They emphasize the establishment of good management, transparency and trading practices that lead to ‘fair pricing’. Emphasis in HIVOS’s relations with these organizations is twofold: (i) improving smallholders’ decentralized management systems to make them more transparent and to facilitate internal auditing and group certification; (ii) moving from an exclusive niche market approach towards an inclusive mainstream market approach looking for possibilities in the

mainstream market to improve and standardize trading practices leading to 'fair pricing' (Pricing 411). But the structures set up to work towards these objectives are complex. Also, improvements have been slow, which has meant a real risk of frustration. Twenty years of discussions within the Fair Trade movement has not yet brought consensus on crucial issues such as trading practices and the resulting pricing.

HIVOS's support to the Fair Trade movement began with Max Havelaar (Utrecht, the Netherlands) in a niche coffee market. From the start, Max Havelaar tried to convince major actors in the coffee chain to comply with its standards. After a few years Max Havelaar was divided into two parts: a commercial promotion division which remained in Utrecht, and a standards development and certification division, which moved to Bonn to operate under the FLO name and label. The FLO structure is not optimal, however, and since 2000 HIVOS has supported restructuring and harmonization of the Fair Trade label which is slowly progressing.

Within the Fair Trade movement there is agreement on principles, but slow advancement towards a united standards development process. From the start, the Fair Trade standards bodies have been motivated by the need to counteract the tendency for small-scale producers to lose market share to large-scale producers that work under central management, since these latter benefit from lower labour intensity and have fewer employees. It would seem that based on their agreement with this general principle, cooperation should be feasible among Fair Trade standards bodies. Based on their consensus in this area, Fair Trade organizations could focus more explicitly on, say, employment and labour conditions in product chains offering opportunities for smallholders (such as coffee and handicrafts); and on transparency and empowerment in production processes.

But Fair Trade standards have not been consistently developed around these issues. Instead, energy has been invested in long, inconclusive discussions about the prices paid to smallholders without recognition that price is simply a function of quality, scarcity and negotiation capacity.

In contrast to the limited progress made in developing standards systems and capacity in smallholder groups, the public relations investments of the Fair Trade movement have yielded enormous goodwill among consumers worldwide and increased demand for products sold with a Fair Trade label. This consumer goodwill is a precious asset which should be

carefully handled and safeguarded. In fact, this goodwill provided the argument for HIVOS and other funders to continue dialogue with and support to the movement.

In 2004, HIVOS became more proactive in capacity building (HIVOS 401), engaging in pilot projects to establish a management system approach. Fair Trade Original (FTO, a Dutch importer of Fair Trade products), FLO and WFTO recognized the role a management system approach could play as an instrument supportive of their objectives. Also, the management system approach had already been successfully promoted by a number of players in the movement, such as HIVOS, the Coffee Support Network (CSN), FTO, TWIN (an English importer of Fair Trade products), Crecer (a training organization in Central America (QM in Fairtrade 609)) and FAQ (a Dutch training organization working in Africa and Latin America (Quality Management 705)).

FLO introduced the management system approach in its standards in 2005, but without making use of the experiences of the approach's earlier promoters and without internalizing the problems that the International Federation of Organic Agricultural Movements (IFOAM) had experienced with group certification (Group Certification 311). Instead FLO copied in its standards (FLO 703) group certification as developed by IFOAM and made it a minimum requirement for FLO certification.

FLO decision making is strongly influenced by the boards and representatives of the producer groups that are already FLO certified. Many of these are justifiably reluctant to engage in a complex unknown management approach for which training and support structures are inadequate or not readily available. Moreover, producers within the FLO system, who enjoy the privilege of a minimum price guarantee, understandably do not wish to put this privilege at risk. There is nonetheless growing awareness that maintaining a price guarantee system will require, at the very least, a sharper focus on quality. In the higher quality classes there is less chance that the guarantee system will come under pressure, since consumers in this segment are willing to pay higher prices for a superior product. Still, the first question asked by the coffee farmers involved in the pilot project was, 'Can the project guarantee that market prices will not fall again as happened in 2002?' The answer to this is of course 'no'. But establishment of a management system approach can help cooperative societies reduce the risk of being destabilized by market volatility; and not in the first place by meeting standards such as those of FLO. When markets are capricious, many new producer groups tend to want to enter standards systems, such as that of FLO, diluting the advantages

by their large numbers. A management system approach can guide smallholder groups by, in the first place, helping them to increase the percentage of higher quality products in their output.

FLO certification is primarily done in Bonn and mainly on the basis of questionnaires to be completed and copies of records to be submitted. Through this process, FLO tries to impose a global quality management system from its central office Europe. The procedure leaves limited room for a bottom-up stepwise approach and entails little integration of auditing into the regular producer group management system.

FLO has experienced difficulties in communicating its standards and certification system to producer groups (Rumukia 708). Many FLO-certified smallholders in Africa have an incomplete understanding of the global FLO standards system, including the verification and auditing procedures. The FLO system is complex and the standards are hard to relate to FLO objectives. Moreover, such a complex standards system means that verification is expensive. In practice, the FLO standards are first 'translated' into a global checklist to which general explanations are added on how the checklist should be used. All of these documents are frequently adapted and updated, but they are not always simplified. Perhaps FLO assumes that its documents are translated in the producer countries for smallholder producers and groups at a low entry level. Notwithstanding, the magnitude of bureaucracy and documentation is at present an obstacle for achieving the FLO objective of smallholder empowerment (Rumukia 808).

FLO is attempting to address its problems through decentralization (via national and continental platforms). But decentralization has made management of the global standards system neither easier nor cheaper. At present, the Rumukia Farmers Cooperative Society (FCS) in Kenya has contacts with an East African representative of the FLO standards body and with an East African external auditor from FLO-CERT (Certification for Development), and it sends reports to Bonn and to the African Fair Trade Platform office in Tanzania. Coordination among these parties is expected to improve and decentralization is expected to provide more space for bottom-up initiatives. To that end, FLO is participating in the Sustainable Commodity Assistance Network (SCAN) and discussing the idea of establishing a reference group to strengthen the bottom-up approach (Appendix 9 looks at the role of reference groups).

FLO initially blamed other standards bodies (such as UTZ Certified) for taking advantage of FLO's training efforts for certification for their own standards. But recently the organization decided that cooperation was the better tactic, to reduce costs and contribute to a generic bottom-up management module in a way that makes sense from the farmers' perspective. As a member of the International Social and Environmental Accreditation and Labelling Alliance (ISEAL), FLO is open to cooperation with other standards bodies. ISEAL is guiding its members towards a generic management module and related group certification procedures (ISEAL 811).

2.3 Dialogue with the Organic movement and support, 1989-2009.

The Organic movement started in Europe and spread from there to other continents. HIVOS began supporting the movement in the expectation that improving environmental quality could be combined with inclusion of smallholder groups. HIVOS continues to support the Organic movement, partly through the Bonn-based umbrella organization IFOAM (International Federation of Organic Agriculture Movements) and partly through member organizations in relevant producer countries. Inclusion of smallholder groups in the movement is being realized, though with a short-term perspective. There is little attention to decentralized approaches to group management. Group certification is allowed only for smallholder groups in developing countries, because the group certification standards at present are considered inadequate for application to producers elsewhere. HIVOS has emphasized the importance of management training and group certification. The group certification standards were refined and improved up to 2004, at which time the Organic standards bodies seemed to be satisfied. HIVOS, however, has continued to work towards further improvement, with the involvement of ISEAL and other standards bodies.

The Organic movement started first in the United Kingdom and later became established in the Netherlands, Germany and other European countries. Early on, the movement delegated national governments the role of standards development and accreditation of certification bodies. Gradually more and more governments became involved, resulting now in more than 60 national Organic standards systems. This breadth and variety provides opportunities for adaptation of standards to national and ecological contexts, though at the risk of global coordination. The European Union and United States play leading roles,

'imposing' their national standards on the rest of the world. Despite these complexities the worldwide trade in Organic products is growing.

Since 1989, HIVOS has been involved in the Organic movement via IFOAM and its member organizations in the relevant countries. In its support HIVOS has emphasized the importance of training and certification specifically focused on smallholder groups, to bring the Organic market within their reach. IFOAM has indicated satisfaction with the group certification model it published in 2004. Only a minority within the movement stated that the present group certification standards and procedures (including internal control systems) should be further developed, generally applied and no longer limited to smallholder groups in developing countries. The argument for extending eligibility is that individual certification is beyond the budget of small-scale producers all over the world. Also the Organic standards authorities in the United States and European Union allowed the IFOAM group certification model only temporarily because better alternatives were lacking, thus limiting certification to smallholder groups in developing countries (Group Certification 311+810; Organic Standards 811). The Organic label has generated a great deal of goodwill in the retail market, which is an important asset, and the market share of Organic continues to grow.

In 2007, IFOAM formulated its four organic principles: ecology, health, fairness and care (IFOAM 709). But the movement has not yet managed to elaborate these principles in the Organic standards systems. IFOAM is now lobbying towards several objectives:

- harmonization of the many (65) national Organic standards systems (however, harmonization appears difficult, since certification for, say, the Kenyan Organic standards is different and cheaper than that for the EU Organic standards, and certification bodies in Europe do not fully recognize the Kenyan standard);
- a better accreditation system for certification bodies, in the expectation that this will lead to better performance of entities providing certification;
- inclusiveness of smallholder groups by maintaining affordable group certification procedures (see also section 2.5.3).

Organic producers in South Africa represent various interests. Those wanting to export their products follow the EU standards system and use an EU accredited certification body. Those supplying national, provincial and local markets consider EU accredited certification (too) expensive and the EU Organic standards insufficiently adapted to the South African context.

They further indicate that markets and supermarkets in South Africa tend to be unclear on their specific product quality and food safety requirements. Yet in some cases these requirements may even contradict Organic principles. Nonetheless, most agree that the Organic standards should be harmonized.

2.4 Dialogue with UTZ Certified and Coffee Support Network, 2003-2009

Dissatisfaction with standards bodies such as FLO and IFOAM led HIVOS to support UTZ Certified, a new standards body established in 2001. UTZ Certified works mainly from a buyer's perspective with limited investments in consumer goodwill. It can thus be termed 'a business-to-business standards system'. By contributing to competition amongst the standards bodies, HIVOS hoped to exert pressure on FLO and IFOAM to improve. HIVOS continued dialogue with its earlier partners on more systematic and inclusive improvements. Training remained a crucial focus area in which HIVOS initiated assistance to the Coffee Support Network (CSN). However, this effort started as a training programme exclusively for producers working towards compliance with UTZ Certified and taking mainly a quick-fix approach. HIVOS is now discussing with CSN how to move the focus towards greater inclusiveness and long-term quality management.

UTZ Certified was established in 2001 as a mainstream initiative in coffee certification at the urgings of the commercial partners in the chain. HIVOS support dates from 2003. The volume of UTZ Certified produce is growing fast, and has already exceeded Organic and Fair Trade. But consumer demand and goodwill for UTZ Certified is growing much slower. To avoid double certification, UTZ has tried to maintain equivalency with GlobalGAP (a private sector standards body for certification as representing good agricultural practice) including the ISO multi-site approach.

Pushed by competition between standards bodies, UTZ (and others) have tended to promote exclusive, standard-specific training. CSN was established from this perspective, with the mission to support the growth of UTZ Certified produce by convincing buyers to have their supply UTZ certified. In qualitative terms, CSN assumes that buyers make well-informed decisions on which standards system to choose for their supply. UTZ claims to provide the best added value for farmers, supposing that CSN can continue with subsidized training.

A coffee buyer may choose UTZ Certified based on the good cooperation between UTZ and CSN. But they also recognize that UTZ has limited consumer goodwill and that both UTZ and CSN are contributing to proliferation and fragmentation in standards systems and the related training programmes. Discussions with HIVOS continue on how to establish a more generic approach to smallholder training. A generic approach would include systemic elements (management improvement and group certification procedures), thematic process elements (environmental and social qualities) and thematic product elements (good agricultural practice, taste and colour).

It is further recognized that the different standards systems have thematic and systemic overlaps and that a (country-specific) generic management training module could offer advantages for trainees (smallholders). But setting up such a module requires cooperation amongst standards bodies and with national extension services, major buyers and 'independent' trainers, to name just a few. CSN is in a good position to collaborate with these parties on a generic module. Some producer countries view the need for more generic training so important that they have already started such a national programme, including setting up a national reference group. More producer countries are expected to follow.

Most standards bodies link their identity to certain thematic issues that they feel must be respected. Therefore, in principle it should not be difficult for these standards bodies to build their own specific thematic qualities into a single generic management system. Accepting this principle in practice could increase effectiveness and reduce costs.

2.5 Standards proliferation and competition are becoming counterproductive

Standardization and training are supposed to contribute to better information flows between consumers and producers. But because of their growing complexity, producer support services create barriers instead. Consumer–producer dialogue is hampered by a number of factors:

- diminishing overview and understanding of the market,
- the unreasonable proliferation of standards systems,
- unclear certification procedures and weaknesses in accreditation procedures,
- contradictions amongst standards in the different training programmes.

Standards and certification bodies have used their creativity and energy to compete with one another instead of focusing on simplifications and inclusive improvements. At the same time, national extension services are disappearing, making room for a multitude of fragmented training initiatives.

Initially the Fair Trade and Organic standards systems were complementary. Whilst the difference in thematic focus has been clear to consumers, they nonetheless expect Fair Trade to include Organic and vice versa. Consumers also expect poverty reduction to be part of both standards systems. Standards bodies are aware of the difficulty in meeting these high consumer expectations, but they are working on the issue while maintaining a cooperative attitude towards one another. The creation of increasing numbers of competing standards and certification bodies really has changed the playing field. Consumers and actors in the chains now face more questions and issues on which they have limited understanding, have little time to spend and are even reluctant to get into the details of. And that reluctance could easily undermine trust. Consumers might become indifferent and lose interest in differentiations between labels and in the content of the standards systems behind the labels. They expect standards and certification bodies to cooperate and to provide assurance on all thematic qualities and to include poverty reduction. Though one label or certificate on a product should be good enough, consumers in different countries may prefer or be used to different labels, and existing goodwill for a particular label in a market should be respected. For producers, the added value of additional (significantly overlapping) labels plus the related standards systems is limited and could even be negative if standards bodies enter into destructive competition. So standards bodies have an interest, on the production side, in clarifying and harmonizing overlaps and, on the consumer side, in avoiding the confusion of a large number of labels on the same produce.

2.6 Countering the negative trends: Coordination and respect for identity

In 2005, HIVOS started looking at ways to counter the negative trends:

- greater emphasis on overview, understanding, priority setting and simplification;
- more attention to complementarities amongst the different standards systems, certification procedures and training programmes;

- coordination to stimulate demand for produce certified according to recognized standards systems (TCC 901);
- stimulation of supply of certified produce in areas where demand outweighs supply.

2.6.1 Dialogue in the Tropical Commodity Coalition, 2002-2009

The Tropical Commodity Coalition (TCC) was established in response to consumer demand in the Dutch market. Consumers there expected retailers and coffee roasters to take responsibility for the supply chains behind the products they were offering. Consumers also expected the products to carry a simple label as a sign of a correspondingly transparent quality certificate. Actors in the chain became aware of the need to simplify labels and certification (SaraLee 811). They also realized that the precise content of standards systems was often of lesser importance, though interest in specific issues could suddenly pop up.

The TCC follows the market for tropical commodities, maintaining 'barometers' that detail recent developments in trade in coffee, tea and cocoa. These are essentially monitoring reports that document the quantities of certified and non-certified produce sold in the Netherlands in a particular period. The TCC also stimulates major actors in the three value chains to work towards a level playing field (Barometer 905).

Different civil society organizations participate in the TCC. They recognize the confusion created by proliferation of standards systems and want to counter this negative trend.

For their part buyers appreciate the coordinating role played by the TCC, and there is growing agreement that higher quality could be achieved if buyers made longer term commitments to producers. Buyers are also aware that short-term interests and competition sometimes stand in the way of a more elongated commitment. An important technical problem, especially for producers who do not consume their produce, is the considerable price differential for taste. For coffee, efforts are under way to standardize taste descriptions with cupping sessions and training producers in cupping. Yet the relation between taste, good agricultural practice and processing remains a complex one, difficult to communicate to smallholder groups. Buyers are in fierce competition, and know from fairs and auctions who is active in the market. In most cases, quality is their major concern.

From a poverty reduction perspective, marketing in many producer countries has a sad history full of missed opportunities for smallholders. And that dim history has much to do with processing and unfair trading practices. There is little trust between producers and buyers, which is one reason why producer groups (sellers) are continually on the look out for new buyers, even if their current buyer has agreed to a longer commitment. Most buyers are so interested in high quality producers that they are prepared to do more than pay a high price.

But trust and transparency are increasing. Some buyers have linked themselves exclusively to one of the global standards bodies for competitive reasons. TCC, however, has demonstrated that differences in content between the standards systems are not significant from the consumer's perspective, although each standards system has its own specific goodwill and consumer following. TCC monitors demand and supply of produce carrying the label (certificate) of each of the standards systems. For some standards bodies the supply is eight times larger than the demand. Others expect shortages in supply if large actors in the chain require more certified produce. Buyers have an interest in creating oversupply, to push down the price, and they are also aware of the need for simplification. They agree on general objectives encapsulated in phrases such as 'poverty reduction' and 'sustainable development' as a basis for consumer communication. Buyers are also aware of the importance of having case studies, examples and illustrations at hand.

2.6.2 Poverty reduction requires attention to management systems

HIVOS began devoting attention to management in relation to poverty reduction in 2000, stimulating IFOAM to improve its procedures for group certification. As a follow-up to the group certification development (2000-2004) HIVOS intensified cooperation with CSN and ISEAL, organizing workshops on management issues. Gradually basic agreement is being achieved on a simplified generic management approach.

On the basis of a series of workshops, ISEAL published *Common Requirements for the Certification of Producer Groups* (ISEAL 811), which contributes to such a basic management module. In October 2008 recommendations were formulated to the US National Organic Standards Programme (NOSP) to refine the IFOAM group certification model in the direction of a management system (a Plan-Do-Check-Act cycle). The original emphasis on internal control is becoming part of the 'check' phase. HIVOS, ISEAL and IFOAM have also

contributed to discussions on a management approach in the new EU Organic standards, which are expected to include management principles.

HIVOS and Social Accountability International (SAI) have additionally been motivated by the awareness that social quality in production processes and specifically gender relations should be internally audited and improved upon as part of the internal quality system (SAI 605).

From the poverty reduction perspective a pivot in this multitude appears to be the combination of the PDCA cycle with priority setting, as elaborated, for example, in ISO 22000, which includes Hazard Analysis Critical Control Points (HACCP) methodology. Priority setting is knowledge intensive and includes the concept of national reference groups as supporting networks and decision-making bodies where there is conflict or a lack of clarity within a standards system, amongst standards systems or between standards systems and national regulations. The ISO HACCP methodology can be simplified into a basic management approach applicable in low entry level producer groups (Appendix 8 presents an example).

2.6.3 Dialogue in the SCAN platform and support, 2006-2009

The SCAN platform was created to harmonize the many different training approaches with a focus on the coffee chain (SCAN 901) and to bolster networks of reference groups. Training is aimed towards finding solutions for key problems. The importance and prioritization of problems should be established with producers, particularly smallholders, in regular country-specific processes. SCAN then promotes customized, needs-based technical assistance to producer groups wishing to improve quality. Members of the SCAN platform (including HIVOS, CSN, FLO, IFOAM and ISEAL) try to provide support to smallholder groups individually, but are increasingly recognizing the importance of a network of national reference groups working in the specific country contexts (see Appendix 9).

2.6.4 Complementarities between standards systems

Discussions are ongoing on the differences amongst standards systems, as many distinctions can be made. A few examples:

- *system* standards versus *thematic process* standards versus *thematic product* standards;
- *minimum requirements* versus *improvement (or progress)* standards (each with a specific certification procedure);
- *consumer goodwill* versus *business-to-business* standards.

Most standards systems contain a mixture of systemic, thematic and thematic product standards. Those with minimum requirements often have a rather high level of entry and therefore offer limited opportunities for smallholder groups. A focus on improvement (or progress) standards, however, requires management skills for which training capacity is not always readily available. Nonetheless, the improvement concept is reflective of consumer attitudes: poverty need only be reduced and sustainability is so far away that the best one may expect is developments in that direction. The need for improvement and simplification of certification procedures corresponds to the HACCP methodology for priority setting and risk reduction. Motivation for business-to-business standards might include ensuring a safe supply chain with a low risk of events that reflect negatively on a corporation's image. But most companies recognize that ultimately consumer goodwill will be decisive.

While these distinctions and complementarities are often confused and misunderstood, there is broad agreement on a number of aspects:

- Only the ISO-based standards systems are consistent in language.
- Consistency is part of standardization and a requirement for achieving complementarities and simplifications.
- Consumer preferences tend to be country specific (TCC is making progress in the Dutch market, but it is questionable whether this is applicable in other countries).
- Product-specific and country-specific market knowledge is lacking, especially on the producer side, and that lack of knowledge hampers interactions with smallholders who have little management capacity and are unable to afford a full-time quality manager.
- There is a need for a more generic training approach.

Pilot projects, such as those discussed in Chapter 3 can contribute to the discussions, especially regarding the bottom-up approach that is required for poverty reduction and empowerment.

3. Bottom-up interaction in three pilot projects, 2005-2009

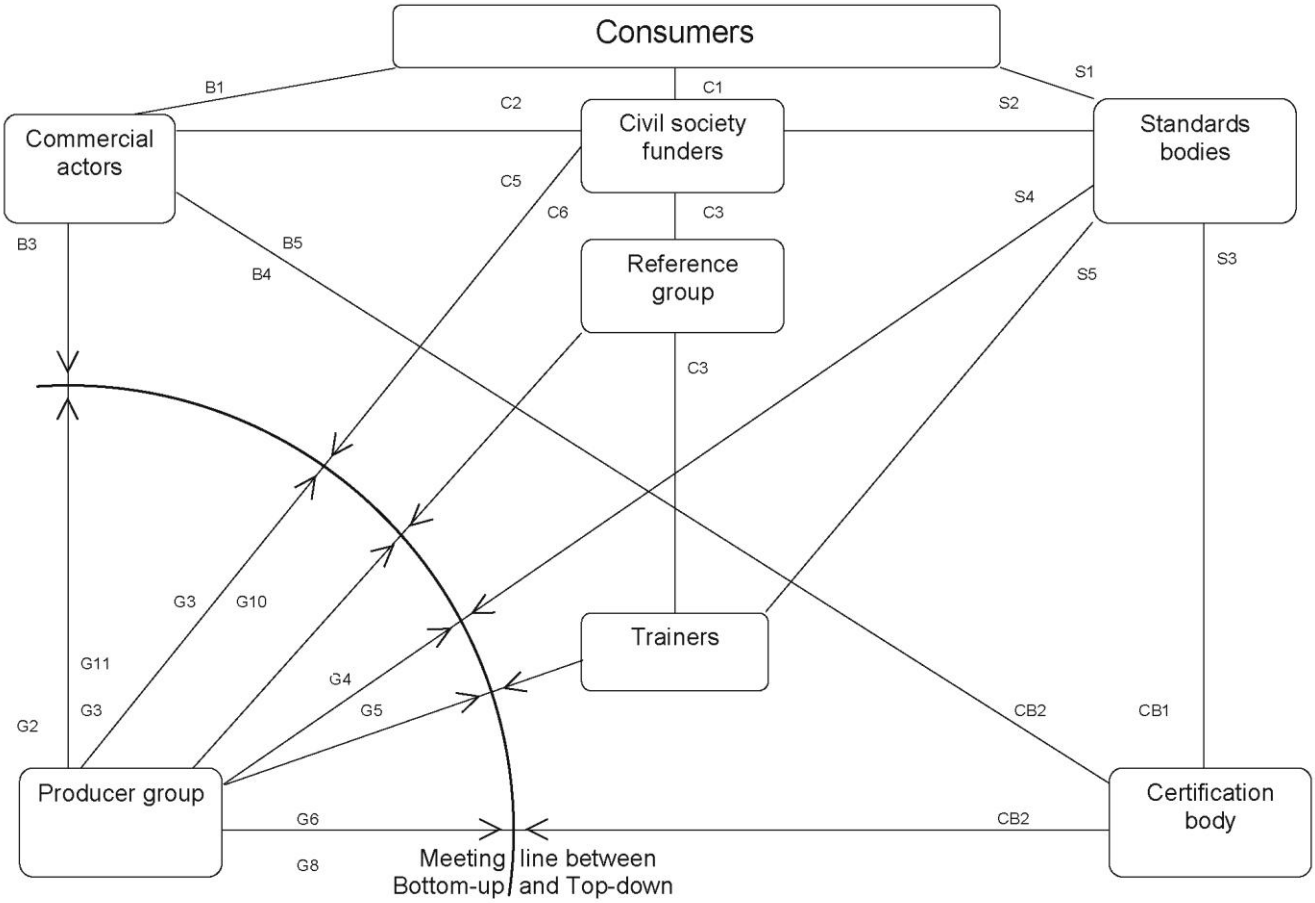
3.1 Introduction

In 2006 questions arose within HIVOS about whether poverty reduction could be combined with sustainable development in a mainstream market context. The decision was made to monitor projects combining these three elements. There was a preference for projects in Africa, where the combination seemed most difficult. The monitoring started with a project involving smallholder groups producing vegetables for a South African supermarket called Woolworths. The second project involves smallholder groups supplying vegetables to the Kenyan supermarkets Uchumi and Nakumatt via intermediate traders. The third project relates to smallholder groups in Kenya selling coffee to an intermediate trader, Sangana, which is part of the international ECOM trading group. This chapter focuses on the project planning process and on progress indicators in the implementation of these three projects. A major problem found in each is poor interaction. Figure 3.1 depicts the interaction schedule, and provides the starting point for our analysis. In the text we make reference to the schedule using the letter-number combinations on each of the interaction lines. For more details refer to the reference materials listed in Appendix 3.

3.2 Decentralization in planning was weak at the start of the projects

Poverty reduction in smallholder groups requires group cohesion, mutual understanding, trust and empowerment. Building these elements requires a bottom-up approach and decentralization in planning as a start for a better management system. It requires acceptance of weaknesses and limitations in capacity. Improving the management **system** is easier if group members notice progress on their prioritized **thematic** objective, which in most cases is strengthening the income position. In the pilot projects the producer groups and their supporters tried from the start to work simultaneously on systemic and thematic improvements. Yet only in the coffee project were the thematic results good enough to establish the trust required for management system improvement.

Figure 3.1: Interaction schedule for the main interest groups.



Sections 3.3 to 3.6 elaborate on the initial roles of the parties who were supposed to set the stage for bottom-up project implementation. Weaknesses appeared in these initial performances, leading to unnecessary challenges. The coffee project was able to overcome the challenges, creating mutual understanding, room for decentralization in decision making and more transparent management systems within the first two years of the three-year project period. The vegetable projects started earlier but required more time, so the original planning was adjusted. Why these differences? Perhaps the entry level of the producer groups was too low. Section 3.2 discusses the importance of the entry level of the groups.

Lack of knowledge about demand was the major bottleneck for planning thematic improvements. Such knowledge is gained through interaction with buyers, who appear to be

the best informed party. Thematic progress is again most apparent in the coffee project. Positive thematic results are elaborated in section 3.9.

Buyers in the first place aim to serve the short-term interests of producer groups. And their short-term objectives are not always in line with the long-term process of developing management systems and reducing dependency.

The *producer groups* in the three pilot projects agreed on their major objective: 'to strengthen their income position'. But they lacked the capacity to list and prioritize the problems blocking achievement of that goal, particularly the requirements for product quality and production process quality. They also lacked understanding of the resulting quality-price relations and price volatility in the market. External support was needed to overcome these problems, to enable the producer groups to meet the demand for quality and the associated need for management capacity to improve product and process quality. Planning also includes answering questions about the cost-benefit ratio of improvements, the existing management capacity and the length and intensity of the improvement process. To address these issues too, the producer groups needed the assistance of an external trainer (line G5 in Figure 3.1) and other supporting parties. Yet no adequate local trainers could be found at the start of the projects, and funding for baseline studies and initial planning was inadequate. As a result the roles of the trainer, buyer and funder were mixed up to fill the gaps. The mixing of roles increased the confusions. Later the initial baseline studies turned out to be inadequate and incomplete. Moreover, the entry level of the producer groups seemed lower than expected. On the part of the supporting actors there was inadequate capacity and commitment to start work at the actual entry level of the producer groups.

The *buyers* in the three projects were pushing for a specific product and production process quality, but without committing themselves to a higher fixed price. This was true even for the FLO-certified buyers. Instead they were prepared to make additional expenditures on 'buyer-specific training' of smallholder groups, as opposed to supporting the 'standards-specific training' organized by the FLO, Organic and UTZ Certified. Initially few of the producer groups explored their opportunities in this complex situation. Only one of the four farmer cooperative societies (FCS) in the coffee project, the Thiriku Producers' Cooperative, decided to look for support from a buyer (interaction line G2) and interacted with that buyer on quality issues (Coffee Project 903). Efforts to raise producers' knowledge of buyer demands and improve interaction were initiated in a centralized way by HIVOS as a

civil society funder (lines C2+C5). HIVOS organized workshops at which the relevant parties participated, a common language was developed and common interests became clearer. This centralized role remained critical throughout the projects.

The coffee project had a better start than the two vegetable projects. Already after several months a price-quality information line was established with the buyer Sangana (B3+G3). This buyer had good knowledge of the market (Coffee Trade 801; Auction 804) and was the first party to share market information on prices and qualities, including consumer preferences and certificates (B1).

Buyers tend to push producer groups to comply with at least one standards system. Buyers' decision making is centralized and does not bother about the cost-benefit at the smallholder level. Moreover, buyers tend to blame civil society and standards bodies for confusion on standards and feel that it is civil society's role to solve those problems. The smallholder groups could not get information from the standards bodies (G4) to prepare themselves for more decentralized decision making. HIVOS in its role as an external funder observed the standards bodies' lack of capacity to communicate the content of their standards system and its cost-benefit ratio (S1+S2+S4). This appeared to be a major bottleneck, making it unnecessarily difficult for producer groups to plan the quality of their product and production process and to improve their management system. Buyers plan in their centralized way how to deal with consumer demand in the multitude of quality standards. When they see an opportunity in the market they hurry to take advantage of it. They might push producer groups to start working towards compliance with a standards system, applying a quick-fix approach with a short-term perspective. They do not have the time to refer the producer groups to the related standards bodies, as they do not expect the standards bodies to bring practical information and immediate clarity. So, the buyers take over liaison roles from the standards bodies, serving their own short-term interests and those of the producer groups. They make their rapid appraisal of the added value and consumer goodwill associated with each of the standards systems and choose the system that they consider most appropriate for the producer group. All producer groups in the pilot projects agreed to work towards compliance with a standards system, but they were not the ones who collected data on the content of the various standards, or on the procedures and costs of getting certified (G4). Neither were the producer groups made aware of incidences of non-compliance and training needs. None looked for a trainer (G5). It was the buyers who chose an accredited certification

body (B4) and started pre-certification and reporting (Certification 312). Incidences of non-compliance did arise (CB2), but were not communicated to the producer level. The buyers responded to these incidents in their part of the chain (B5). Though the producer groups were supposed to respond to any non-compliance in their part of the chain (G6), interaction was weak which frustrated improvements. Buyers preferred to wave away incidents of non-compliance reported by the certification body, insisting instead on quick-fix solutions (B5), subsidizing the certification process so as to quickly obtain the certificate.

Standards bodies consider producer groups to be in the first place a single legal entity for certification purposes. Secondly they consider decision-making processes in the group. Where decision making is decentralized, individual certification is required. Yet individual certification of each group member is seldom a feasible option. The alternative might be to centralize decision making at the managerial level, with the central manager being the buyer, the processor or one large producer. Central management could also be implemented through outgrower systems and contract production in such a way that group members become employees. Developments in this direction are being attempted in the vegetable projects, where the requirements for certification are met by central management. As funder, HIVOS considers this option to be a transitional stage and expects room in the longer term for decentralization and group certification. Still, many questions remain. It is not clear whether development via central management is an effective way to achieve inclusive improvement. Neither is the concept of group certification as yet adequately developed (see Chapters 5 to 7). Without a functioning PDCA cycle, group certification might in fact be counterproductive in producer groups.

3.3 How low can the entry level of producer groups be?

Decentralization of planning requires producer participation in the collection of baseline data and their agreement on the objectives, problem analysis and priorities. The lower the entry level of a producer group, the more difficult it is to decentralize planning. The entry level of all producer groups in the pilot projects was lower than expected, but in the coffee project it was higher than in the vegetable projects. As a result, all of the projects had more centralized initial planning than had been expected. Centralized planning carries the risk of a low level of

understanding and ownership by the concerned producers. In the same centralized way, the producer groups were pushed towards compliance with standards systems, including group certification.

In its bottom-up mindset, HIVOS tried to decentralize the planning, being aware that centralized initial planning could hamper the further development towards more autonomous management by a group of entrepreneurial producers. There were also practical reasons for decentralized planning, such as the large numbers of producers involved, the entrepreneurial posture of the project, the long distances and the poor communication infrastructure. HIVOS was also aware that decentralized decision making, planning and management would require group certification, which would require adequate auditing.

The unexpectedly low entry level of the producer groups made the initial two project years of even the coffee project difficult. It would have been more difficult if the entry level had been lower, as in the two vegetable projects. The difficulty lies in the balancing between centralization and decentralization in decision making (see Appendix 5). Because of the groups' low entry level, the buyer, funder, trainer and certification body had to start from centralized decision making while maintaining their bottom-up intentions.

The balancing process became most transparent at the review meetings held during implementation. But in the vegetable projects the frequency of review meetings was low, with as a result, decision making remaining implicit and centralized. Progress towards more autonomy was also lethargic. In the coffee project, decision making was rendered more transparent by the frequent review meetings, which each of the four FSCs held every four months. The first four meetings were in April 2007.

Now in September 2009 the authors can refer to documentation from eight times four meetings. These papers include minutes of the previous meeting, reports on the preceding four months and plans for the upcoming four months. The trainer and funder were present at the review meetings and with the documentation in hand could monitor progress in the four societies.

Slide 3.1: A review meeting with promoter farmers and cooperative board members.

Slide 3.2: Selection of coffee berries at the Giakanja wet mill.

Progress appears to be non-linear. It has ups and downs, often related to specific weaknesses in the decision-making process. Progress also differs from society to society. Analysing the differences helps increase our understanding. While farmers are eager to compare and analyse outcomes at the group level and of other farmers, initially they often found it difficult to provide detailed information about their own performance and decision making.

Examples of differences were found amongst the participants in the coffee project. The 11 wet mills pay different prices for the coffee berries brought to the mill, varying from 18 to 60 cents per kilogram (Table 3.1). When the differences were large and consistent, the producers started *blaming* the management at their mill and trying to sneak their produce into another wet mill, which undermines the management system of the wet mill and contradicts the cooperative act and certification requirements. It also confuses the collection of statistical data. A major breakthrough came at the end of the second coffee season in April 2009. At that point, positive *thematic* results became apparent in terms of increased incomes, and obvious gains in management *system* aspects from the investment in seven review meetings created confidence. On that basis the board members and managers of the four societies asked to be trained in management. The training took place in August 2009 (see Appendix 5). All 70 participants agreed to discuss their weaknesses and were committed to improve. Instead of *blaming*, participants became prepared to analyse and address deficiencies.

The coffee project experienced a breakthrough in April 2009, moving from jealousy and blaming to acceptance of weaknesses and preparedness to do better. No such breakthrough has (yet) occurred in the vegetable projects, probably because the investment in review meetings is much lower and thematic results are not yet obvious.

Preliminary conclusion 1. The entry level of the four cooperative societies in the coffee chain was sufficiently high in relation to the level of commitment and investment of the buyer and funder. The four coffee cooperatives achieved *thematic* results and are on the road to more autonomous management *systems*. With a continued intensity of review meetings, more training experience, better training tools and good examples available, inclusion of more and perhaps even lower entry level groups in the same context may be feasible. More cooperative societies have already applied for the next project. Their entry level is yet to be determined.

Preliminary conclusion 2. The entry levels of the producer groups in the vegetable chains were low, in view of the low level of commitment and investment by the buyer and

funder. Clear thematic results have yet to emerge. The slow progress brings with it a high risk of frustration, reducing the already low entry level further. More centralized management seems a better option in this case, as inclusiveness and poverty reduction are difficult to realize in the present context.

It is worthwhile to elaborate on the two preliminary conclusions above. The next sections continue the analysis.

3.4 Initial interaction with civil society, including funders

The producer groups' initial interaction with the external parties was mainly brought about through facilitation by civil society organizations (C2). The planning process started in a centralized way. Collection of baseline data was the first step. But already from this step the interaction processes were weak. This was reason to focus on improving interaction, a learning process preferably done on the job.

In the South African vegetable project the commitment of civil society was low in relation to the entry level of the producer groups. Funder HIVOS was not involved in the start-up of the first vegetable project in South Africa and was insufficiently aware of its problematic begin and the limited opportunities for small-scale farming in the dry vicinity of Kwazulu Natal. The idea was that the producer group would work towards compliance with the EU Organic standards, of which only the external auditor had knowledge.

There were a number of disconnects between the producer group's production processes and the requirements of the EU Organic standards. For example, the producers had a mono-crop orientation on madumbes (also known as taro or cocoyams) (Slide 3.2), which is out of line with the Organic requirement of intercropping. When HIVOS was invited to participate in the ongoing implementation process (Woolworths 505), it made its decision not by looking for the required baseline data, but rather, by listing the pros and cons of involvement, though based on inadequate data. A key positive argument was the serious commitment of the buyer, Woolworths, which led to HIVOS's decision to get involved.

Gradually two things became clearer to HIVOS in its role as funder:

- the producer groups had too limited an understanding and overview of the system they were entering, and they had little capacity to participate in planning along the

lines of the project framework presented to potential funders or to negotiate on the plan (G10) with the other parties in the multiparty arrangement.
- HIVOS's own appraisal system was not geared to deal with plans from low entry level producer groups. In such cases, HIVOS expects an intermediate role to be played by a local training organization. This trainer should have both the capacity to meet HIVOS's requirements for appraisal of long-term projects and ability to maintain a bottom-up participative planning and management process at the level of the producer groups. No training organization with such capacities could be identified.

HIVOS appeared unable to correct the weaknesses, and the problematic plan led to an implementation process that was too slow for most participants. Frustrations increased and further progress was at stake.

The Kenya vegetable project started with HIVOS in its funder role entering into a relationship with the Kenya Organic Agriculture Network (KOAN) and three training organizations. HIVOS and KOAN intended to set up this project in a stepwise manner, with KOAN leading the process. The project idea developed. Three training organizations were found that appeared to be involved in working with farmer groups, which themselves were spread over different ecological regions in Kenya. Gradually two buyers and one certification body came in. But KOAN's coordinating capacity proved weak in this fragmented project setting, and HIVOS was unwilling to provide back-up, for example, by addressing the many problems that were popping up and immediately funding requests. Tensions rose and dealing with the frustrations usurped increasing energy and funding.

In the coffee project, HIVOS accepted and committed itself to the request to support one of the cooperative societies, Thiriku. HIVOS identified the buyer Sangana in August 2006. HIVOS and Sangana started collecting baseline data (Baseline Coffee 608) and preparing the project, with a bottom-up mindset but centralized decision making. On the basis of the baseline study a first workshop was organized in September 2006. Objectives were identified and prioritized during a long session with the cooperative societies' board members. Finally, under pressure by HIVOS, the societies reached 'consensus' to focus on one objective only. Major obstacles were discussed and the groups agreed to work towards compliance with good agricultural practice (GAP). The results of this work provided a

sufficient basis for further elaboration by Sangana and HIVOS and for getting green lights to participate in the project from the general assemblies of the societies.

At a second workshop in December 2006 a three-year plan was formulated in a process intended to be decentralized and participative (Coffee Planning 612). But the entry level was again too low to achieve decentralized decision making. The resulting plan included procedures for review meetings, auditing and progress indicators. The main indicator is the percentage of premium coffee in the total coffee output. Other indicators are the quantity of coffee produced per tree, pruning (yes/no), and application of manure or compost (yes/no). Sangana was quick to approve its 25% share in the project budget. Funder HIVOS took more time for approval, as the plan did not meet all its criteria.

3.5 Do smallholders interact with standards bodies?

Apparently interaction with standards bodies (S4) is difficult and in many cases non-existent. Indeed, most standards bodies have a top-down mindset and find it tough to incorporate the interests of smallholder groups. They demonstrate their top-down attitude, for example, in their way of communicating standards and their way of handling group certification. For their part, smallholders do not always understand and respect the role of the standards bodies in consumer communication and in increasing consumer goodwill for the products in the marketplace (G4). In our three projects, it became clear that there was a lack of capacity to discuss and apply global standards in the context of a specific product in a specific producer country at the smallholder level.

In the South African vegetable project, it was the buyer who advised the farmer groups to go for Organic quality. No global, national or provincial representative of a standards body was invited to give an explanation. For the past several years, South Africa has had a draft national Organic standard, but neither the national and provincial governments nor the Organic movement are strong in explanation and promotion. No national Organic standards system has as yet been formalized in the country. One producer group in the vegetable project contracted an EU accredited Organic certification body and established working relations with an external auditor (G6) according to the informal procedures for group certification in the EU system (Group Certification 311). But ultimately the lack of understanding by this smallholder group led to an unsatisfactory certification process.

Kenya does have a formal national Organic standards system, but there are weaknesses in the accreditation of certification bodies as well as in monitoring the global standards bodies operating in the country. KOAN is active in promoting the Kenyan Organic standards system and advises smallholder groups to make use of a certification body specialized in the national Organic standard. This route is affordable to the smallholders, unlike the more expensive certification bodies that test for compliance with the EU Organic standards, which is aimed primarily for farmers wanting to export to Europe. The Kenyan Organic standards system is not fully recognized in Europe. Farmers accept the cheaper certification but understand little of the difference. Other standards bodies had no national representation at the start of the pilot projects.

In the Kenyan coffee project the decision to work towards compliance with a global standards systems was planned for a later phase. But buyers obtained information on markets for certified produce and wanted to go faster, in light of their short-term interests and those of the producer groups. As a result, the buyers took a hurried decision to work towards compliance with either the Fair Trade standards or the Coffee and Farmer Equity (CAFE) Practices, without involving promoter farmers and internal auditors and without first creating understanding of these standards systems.

3.6 Trainers become more realistic in creating expectations

The start-ups of the pilot projects laid bare the inexperience of the trainers. They started their difficult work without claiming enough time, giving insufficient attention to baseline data and without establishing a consistent training programme. The trainers raised high expectations about group certification and management improvement in the smallholder groups without consideration of their low entry level and the limited commitment of the other parties.

The local trainer in the vegetable project in South Africa's KwaZulu Natal Province started work on an ad hoc basis, suggesting that he could, for example, train the internal auditors at a one-off event so that no follow-up would be required. He did so, because he thought that it would improve internal auditing irrespective of the management system and because there was no budget for follow-up. But the internal auditor training did not produce the expected results, as could perhaps be foreseen for such a low entry level producer group. Frustrations arose. Relations with the trainer deteriorated, and the improvement process was

blocked. The producer group decided it did not need any more training – a view that was out of sync with the certification body's list of non-compliance incidents.

The start-up of the vegetable project in South Africa's Limpopo Province was better, but the baseline data were nonetheless incomplete, particularly regarding the management capacity of the producer groups. The appraisals of buyer Woolworths and funder HIVOS were too optimistic. One of the producer groups took the initiative to invite a certification body, which set the condition that the group engage in a training programme with the extension service of the Limpopo Department of Agriculture. Apparently the producer group was not convinced of the quality of the extension service. It rejected the condition and invited a second (more expensive) certification body which did not set the condition.

The vegetable project in Kenya started with the assumption that three training organizations could train 200 vegetable-growing farmer families organized in various group sizes and in different climatic zones. This starting position, however, reduced the chances for success. First of all, the project setting was expensive with a lot of external training required and a limited role for internal trainers (the promoter farmers). Also, the initial focus was on coordination of training related to Organic quality standards, without bringing in knowledge of demand for other qualities. The project started without a link with a buyer providing market information. A first buyer came in and could redress the situation to some extent. Later a second buyer came in, which led to destructive competition. None of the trainers had experience with the delivery of vegetables according to Kenyan supermarket specifications. Food safety has become the primary process quality issue for supermarkets everywhere, including Kenya. This was a reason for the first buyer to engage a full-time HACCP trainer to work on a parallel training programme.

3.7 Challenges related to the initial roles of certification bodies

The interaction between smallholders and certification bodies was poor and the starting up of internal auditing and group certification was unnecessarily difficult. Wrong perceptions were created which persisted into project implementation. The performance of certification bodies was hampered by competition, an inadequate financial basis, inadequate accreditation and lack of skills to certify decentralized smallholder group management. Decentralized management requires strong internal auditing with special attention for the weakest 10% of

group members. The lack of auditing capacity pertains to the accreditation by the related standards bodies: FLO, CAFE Practices and the different national Organic standards bodies. In all systems it is unclear when group certification is allowed instead of the expensive individual smallholder certification, and when the management of a group of smallholders is sufficiently centralized to consider it as one producer society. This last option is under consideration in the vegetable projects where several conditions are met:

- a central manager works to improve the system to better meet demand;
- a central manager distributes orders in a centrally managed communication system;
- at least one larger production unit is involved to fill gaps left by smallholders.

But even in such a centralized system the standards bodies appear reluctant to accept certification of a complete producer society, but continue to require group certification. Their criterion seems to be the extent to which management decisions are taken at physically different production sites. Careful reading of the contracts between group members and central management is the basis on which they decide whether the members take management decisions themselves or have centralized decision making. However, even if contracts point towards centralization, reality might be different.

In 2003, a South African vegetable producer group received its first certification report, which noted 25 incidents of non-compliance. These were not communicated to the group members, however, nor were they understood or taken as points for improvement. The producer group protested and the certification body was asked to indicate its tolerance limits on each type of non-compliance. A discussion on minimum requirements and continual improvement then began, but trust was insufficient to allow a constructive process to ensue. Frustration was increasing and another certification body appeared eager to take over. The group accepted the change, but it did not solve their problems. The negative impact of this difficult start still persists today.

In 2005, the board of the Rumukia cooperative society (5,000 members, 8 wet mills) came into e-mail contact with FLO-CERT, which sent it forms to fill in. The manager of Rumukia had a hard time with the forms, and was unhappy with the long lists of questions being asked without face-to-face contact and consideration of the Rumukia context. Internal communication on the certification process was also poor. The members of Rumukia --

including the board -- did not understand what was going on and got a wrong perception of certification, which also still persists.

3.8 Challenges during implementation of the South African vegetable project

In spite of commitments by buyer Woolworths and funder HIVOS in the KwaZulu Natal vegetable project, during implementation it appeared that the supporting parties had insufficient capacity to repair the initial problems and initiate improvements at an acceptable pace. The start-up of a second vegetable project in Limpopo Province was slightly better, but here too baseline data were lacking on existing management capacity. Buyer Woolworths and funder HIVOS were again too optimistic and the pace of implementation remained slow.

Only one of the four groups in Limpopo Province is making intermittent progress. This group agreed to discuss non-compliance incidents, to standards and to the product specifications set by the buyer Woolworths. It further accepted an intermediary role for a large production and processing unit. But the parties have had difficulty living up to their contractual arrangements and interacting adequately on deviations from norms. It took a long time after the first external audit before the Organic certificate came in, and Woolworths was not always clear on its requirements. Woolworths was in such fierce competition with other buyers (such as Pick and Pay), that structural improvements were jeopardized. But awareness is growing and a discussion on structural improvements in small-scale vegetable production is starting, including measures to overcome the negative impacts of competition between supermarkets.

3.9 Challenges and successes during implementation of the Kenyan vegetable project

Implementation of the vegetable project in Kenya is slow but ongoing. Two buyers came in late and initiated fierce competition, which continues to negatively impact the supplying smallholders. Strong points are that larger production and processing units are involved to fill gaps left by smallholders and to assume the retail risks, as they hire shelf space in

supermarkets on the condition that turn-over per square metre is greater than an agreed minimum. Due to slow implementation, weak roles of HIVOS and KOAN and competition between buyers, data are only available in bits and pieces and require reconstruction and confirmation.

Buyer Green Dreams initiated two important activities. First, it hired a full-time HACCP trainer to train smallholders parallel to the training by the Kenya Institute for Organic Farming (KIOF), which mainly focused on Organic standards and group certification. This solution is not optimal and the two training programmes might be better integrated and certainly should be monitored. Second, it hired a consultant to improve communication between the multitude of smallholders and the manager of the collection point, who is tasked to continuously meet the requirements on the shelf at Nakumatt while making use of a variable and unreliable smallholder supply. Smallholders and smallholder groups sign up to deliver qualities and quantities of specific products on specified dates and are obligated to communicate any deviation as soon as they become aware of it. A spreadsheet has been developed as framework and possibilities are being tested to communicate with the training organization Sustainable Management Services (SMS).

3.10 Challenges and successes during implementation of the coffee project

Implementation of the coffee project has been the most successful, probably due to the stronger performances of funder HIVOS and buyer Sangana, and due to cohesion in the farmer cooperative societies (FCS). Funder HIVOS may have learnt from the vegetable projects. The coffee project's positive result is related to a rigorously planned three-year effort with three PDCA cycles per year carefully supported and monitored by funder HIVOS and trainer SMS. This does not mean that all problems have been solved. Serious difficulties remain, for example, improving 'auditing' as an integral part of the management system and improving 'plant nutrition and waste recycling' on the thematic list. But problem-solving capacity has improved, including the capacity to identify problems and initiate problem solving. A general feeling of improvement has emerged leading to trust and reduced transaction costs. The four FCSs will probably remain focused on problems that are recognized as having a rather direct relation to income.

3.10.1 Systemic challenges and successes

Many of the results achieved were at least partly initiated by the external supporters. The question is whether they are sufficiently internalized to be continued by the FCSs after the project ends. According to the three-year plan, the four cooperative societies elect or appoint one promoter farmer per 40 farmer families (Slide 3.3).

Slide 3.3: A promoter farmer training the group.

In the Kenya coffee project, the promoter farmers are trained in good agricultural practices, such as composting, at the farmers' training centre. Afterwards, they immediately start applying what they learnt. The first review meeting was organized in April 2007, four months after the start of the project. Attendance of the promoter farmers at the meetings was above 70% and remained at that level during the following review meetings. The meeting time was between 11.00 AM and 5.00 PM without interruption.

The contributions of the four FCSs at the first review meetings were modest. Further, the documentation and audit reports were poor, as could perhaps be expected. The trainer played an important role in these first meetings. Improvements came gradually in the following meetings, and the role of the trainer in the preparations diminished. The participating promoter farmers claimed more and more time to discuss the minutes and action list from the previous meeting and the report on the previous four months. The trainer introduced standardized formats for planning and reporting, which facilitated comparisons over time and amongst the four cooperative societies. Targeted training was organized on various issues.

Two years later, however, progress on internal auditing remains slow. Internal auditing has to be linked to the management system. Available curricula (based on ISO 9000) have not been easily understood or fully applicable in the context of the four societies. The problem was increased by external auditors who come in to certify for Fair Trade standards and CAFE Practices. Additionally, the interaction between the promoter farmers and the societies' board members is weak and synergy between internal and external auditing is at too low a level. Nonetheless, there is awareness of the direction of improvements needed, even on these difficult systemic issues. Trust has also grown.

There is also increasing respect for the focus in the three-year plan, for the yearly plans for 2008 and 2009 and for the four-monthly planning cycle in the many review meetings. This is not only because of the close monitoring of the external supporters, but more and more because of their own rising understanding of the relation of these plans to income:

- The 250 promoter farmers and their groups have given priority to planned topics such as good agricultural practices, better control over inputs, waste recycling, composting and limitation of expenditures on chemicals, because they understand the relation of these topics to income.
- There is a clear focus of the available management capacity on these issues and minimum time is spent on other (unrelated) issues, because the managers are aware of their limited capacity.
- There is growing trust in the management of the groups (in the promoter farmers and the boards of the cooperative societies) and in the support structures.

When in August 2009 *follow-up planning* for the coffee project was started, the critical importance of priority setting appeared to have been accepted and internalized by everybody, although the outcomes of the priority-setting processes differed amongst the different societies. There was also discussion about representatives of civil society, trainers, consultants, software companies, and salespeople from chemical and processing machine companies visiting the FCSs and trying to sell their product. These products were often on offer with subsidy, but few invested time in baseline studies to check whether their product fit with the priorities and current PDCA cycle of the producer group. Despite the good intentions of all of the involved parties, mistakes were clearly made, in the first place by the managers and board members of the four FCSs. They in some cases agreed to add new elements to the plan, unrelated to the priorities set and undermining the management training process. But parties in the outer support cycle, including funder HIVOS and buyer Sangana, could also have performed better, by demonstrating more respect for the plan and for the focus of the FCSs.

3.10.2 Thematic challenges and successes

Many aspects of the implementation were successful thanks to rather stable prices in the coffee market. The results in the 2007-08 coffee season were lower due to low rainfall. The rains in the other years were rather good. Most of the thematic indicators were influenced by rain and could also be influenced by market price volatility. For that reason we took a three-year average over 2005-2008 and compared these average figures with figures obtained in 2008-2009, which we consider representative of a period of average rain and market prices.

Of the aspects examined in Table 3.1, the percentage of premium grades is perhaps least influenced by rain and market prices. The reliability of the figures is rather limited, as the averages contain a high level of variation. Nonetheless, due to the large number of farmers (10,703) and wet mills (11), the growth figures still have relevance. The resulting 69% increase in income is confirmed by farmers and management who agreed that considerable improvement had been achieved by the joint efforts in the project. Our major concern is the unequal growth in the farmer groups. We have reason to believe that the payments to the weakest 9% of the farmer families, who harvested less than 1 kg per tree, also increased, but less than 69%.

Percentage of premium grades

The percentage of premium grades is an important indicator, because it is the result of applying good agricultural practices and good processing, and is least dependent on rainfall and fluctuations in market prices. The percentage of premium grades increased over the three seasons by 16% per year. It started at 59% at the end of the 2005-06 season and rose to 84% by the end of the 2008-09 season. The three-year average was 72% and the growth to the 2008-09 season was 18%. The target was set at 75% which was achieved.

There is now a growing awareness of the importance of raising the taste class, which is a second indicator after having the premium grades (Thiriku Coffee Quality 908). Plans are being made for cupping laboratories, and a new target will possibly be set in the next project period, for example, at least 50% of coffee in taste class 2. Most of the coffee now is class 3 or lower.

Table 3.1: Percentages of premium grades and rates of payment in Kenyan shillings per kilogram of coffee cherries.

Coffee sold per wetmill in kg and Ksh obtained.								
	2005 - 2006		2006 - 2007		2007 - 2008		2008 - 2009	
WET MILL	**kg**	**Ksh**	**kg**	**Ksh**	**kg**	**Ksh**	**kg**	**Ksh**
Kagunyu	352086	14473469	436960	15918009	250531	10697674	510.374	18883838
Gatura	256339	11349106	299291	11260611	191370	8171499	297.257	10998509
Thunguri	305405	13073210	418490	15473865	216852	9259580	506.087	18725219
Maganjo	210738	11717338	290788	10990563	168987	7215745	382.141	14139217
Kiawamururu	195100	9095862	275390	12108219	155570	6642839	353.314	13072618
Tambaya	491540	12975913	551329	18661272	197860	8448622	623.705	23077085
Gaikundo	291742	8505253	382252	13230546	133421	5697077	351.038	12988406
Ndiaini	255246	11496265	483310	12950606	196478	8389611	541.856	20048672
others	pm				pm		pm	
total Rumukia	2358196	94236980	3137810	110593690	1511069	88661274	3.565.772	175437081
Giakanja	744785		557668		459648	13329792	724.918	21747540
Githiru	201216		214738		157906	3000214	299.616	5992320
Thiriku	861592	24567348	797778		561421	16842630	904.321	32555556
Totals of 11 wet mills	4165789		4707994		2690044	121833910	5494627	235732497
Average per wet mill	*378708*	*13200481*	*427999*	*13824211*	*244549*	*11075810*	*499512*	*21430227*
kg coffee per tree	2,1		2.4		1.4		2.8	
kg coffee per tree best promoter farmer							17,2	
kg coffee per tree project target 2012							10	

		2005-2008 average		increase 2008-09 in %		2008 - 2009	
increase of average production in 2008-09		350.419	12700167	43	69%	499.512	21430227
increase in coffee cherry per tree in 2008-09		2		40		2.8	

Farmer payment per kilogram coffee cherries

The average payment to farmers for the coffee cherries accepted at the mill increased by 21% from 29 Ksh/kg over 2005-2008 to 35 Ksh/kg in 2009. The increase is explained partly by the 16% increase in premium grades and partly by other factors such as coffee taste. The eight mills in Rumukia scored especially high on taste (Table 3.1). Other explanations for the higher payments include greater efficiency and lower transaction costs. The mill management decides on the percentage of mill income paid to the farmers. This percentage should be at least 80%, but some mills pay more than 80% to the farmers.

Yield per tree and tons of coffee cherries accepted at the mills

The average yield per tree for the 10,703 farmers during 2006-2008 was 2 kg (Table 3.2). This figure relates to the quantity of coffee berries accepted at the wet mill divided by the number of productive trees at the farms. The average number of productive trees is estimated at 185 per farm. The average yield per tree improved by 40% to 2.8 kg. But the 10 kg/tree target set in the three-year plan was far from achieved. However, everyone is convinced that with normal rainfall this target can be achieved, which implies a potential tripling of yield for the next three-year period. Yield measures apparently should focus more on the quantity per tree indicator, which is a function of plant nutrition. The average quantity of coffee cherries accepted at each wet mill increased by 40%, from an average of 364 tons to 517 tons in the 2008-09 season.

Income of the wet mills for the coffee sold

The income of 11 wet mills increased by 69%, from an average of 12.7 million Ksh to 21.4 million Ksh in the 2008-09 season. The 69% growth figure is explained by the 43% increase in quantity, the 16% increase in premium grades and other factors such as taste, greater efficiency and lower transaction costs.

Table 3.2: Coffee sold in kilograms and Kenyan shillings earned, 2005-2009.

	premium grades in % of total				farmer payment per kg cherry				farmer families	% weak
wetmill	2006	2007	2008	2009	2006	2007	2008	2009		farmers
Kagunyu	63	74	83	88	24,6	26,6	45,1	36	868	7
Gatura	62	76	73	76	22,8	27,5	42	35	807	10
Thunguri	62	78	81	89	24,1	27,2	43	42	944	10
Maganjo	55	79	84	90	28,3	27,1	48	39	758	6
Kiawamururu	64	80	86	92	23,7	32,1	42,7	42	634	6
Tambaya	54	73	84	81	20,4	26,1	41,7	35	977	8
Gaikundo	51	72	83	78	19,7	25,8	42,7	34	747	6
Ndiaini	60	76	81	84	24,7	16,9	40,1	35	1138	4
Giakanja	62	75	78	79		26	29	30	1400	14
Githiru	65	82	78		16	19	19	19	700	10
Thiriku	52	81	78	83	23	22,5	30	37	1730	13
average	59	77	81	84	23	25	38	35	973	9
total									10703	

	grades	payments
average figures over 2006-2008	73%	29 Ksh
average figures 2009	84%	35 Ksh
% Increase 2009 compared to 2006-2008	16%	21%

3.10.3 Conclusions on challenges and successes

The tables above show a high level of variation, though not all figures are completely reliable and some are missing. For those reasons, an additional table is added to check consistency. Table 3.3 below suggests that the average farmer income increased by 69% from 13,000 Ksh to 22,000 Ksh per annual coffee season. The most important conclusion, however, is that the increase is enough to be recognized by all, including the reasons why income increased. And this general perception of the project's success creates room for progress on the system indicators. Special attention has to be given to internal auditing and to address the weakest 9% of farmer families at each wet mill. Progress on these two systemic issues was slow during the first two years.

Table 3.3: Increase in amounts paid to farmers after two project years.

Payments to farmers increased by 69% compared to the three-year average with the following assumptions:

1. The average number of trees per farmer family remained 185.
2. The average number of farmer families per mill remained 973.

Payments increased mainly through improvements in quantity (43%), but also by growth in earnings per kilogram (21%).

	2006-2008	increase	2008-2009
Kg coffee cherries per tree	2	40%	2.8
Kg coffee cherries accepted at the mill (185 trees)	364	40%	517
Total coffee cherries accepted at the mill (realized)	350 tons	43%	500 tons
Increase in % premium grades	72	16%	84
Payment to farmers in Ksh/kg coffee cherries	29	21%	35
Average amount paid to farmers (Ksh x 1,000)	12,700	69%	21,430
Average amount received per farmer (Ksh)	13,052	69%	22,025

4. Bottom-up: Can smallholders improve quality to increase income?

4.1 Introduction

This chapter identifies the importance of a quality management system for groups of smallholders. Such a system can be developed at various levels of sophistication. To enhance inclusiveness, it is crucial to enable low entry level groups to start with a very basic and simplified quality management system that they own and can improve upon over time. In such situations a quality management system can become an important developmental tool, providing smallholders with relevant information, enhancing transparency, and exerting pressure to improve. In theory, one might wish to start with systemic issues, like developing internal auditing procedures and practices.

However, especially with lower entry level groups that have little or no quality management experience, practice teaches that it is necessary to first look for thematic opportunities. For example, for many farmers the second source of income after coffee is milk from their two or three cows. But the manure is rarely used optimally for composting, livestock-related methane gases are seldom checked and waste recycling is limited (Slides 4.1 and 4.2). To improve performance on these thematic issues requires improving systemic management capacities.

Section 4.2 puts forward the proposition that smallholders depend on markets and that realistic support strategies therefore need to focus on enhancing market opportunities. Next, section 4.3 develops the idea of a quality management system as a development tool to assist smallholders in improving their quality and in setting and achieving their own objectives.

Slide 4.1: Waste recycling still tends to be limited.

Slide 4.2: Greenhouse gas (methane) emissions are reduced by replacing firewood and fossil energy by biogas.

4.2 Smallholders and market dynamics

Smallholders depend on markets. Even for the poorer producers no realistic alternative exists for the foreseeable future, which means that sustainable poverty reduction programmes need to focus on creating and enhancing market opportunities (Albu 2008, Kydd & Dorward 2001, World Bank 2008). Moreover, smallholders cannot operate effectively on their own in the more demanding markets, because of diseconomies of scale. Producer organizations like cooperatives offer possible economies of scale, as well as a potential social and economic basis for commitment among members to build a quality management system (Bijman 2007).

In terms of markets to serve, a distinction is often made between 'local' markets and 'international' markets. The increasingly misleading idea behind this distinction is that local markets do not demand quality, while international markets impose complex and expensive quality requirements and pay higher prices. However, 'local' or at least domestic supermarkets in developing countries are rapidly gaining a rising share of the domestic retail market, and such supermarkets increasingly demand specific qualities (Weatherspoon & Reardon 2003). Therefore, producers who focus on the domestic market require some kind of system to monitor and report to buyers on specific aspects of quality. In many cases, these domestic or local standards are (as yet) informal and implicit: producers and buyers 'simply know' what they expect from each other, and these informal standards are seldom documented. In general, it can be said that when the physical or perceived 'distance' between producers on the one hand and retailers/consumers on the other hand is larger, standards become more formalized and require more documented evidence of compliance.

A second complication comes from producers' lack of attention to product quality. In many production chains income can be easily stabilized and even doubled, as in the Kenyan coffee project, by investing in product quality. The standards bodies included in this study claim to contribute to better incomes for farmers, but do not focus on actual **product** quality standards.

A third complication comes from the too simplistic assumption that international markets always pay either a fixed premium for certified produce or a differential (a higher price) for products that are compliant with global standards. The fixed premium idea, for smallholder groups that achieve significant quality improvements, has always received much attention in consumer campaigns (such as Fair Trade). Additional income can also be

obtained with a price differential, especially in situations where the demand for certified produce outweighs supply. However, the short-term reality for many smallholder groups and cash crops is that the additional up-front costs of working towards compliance (training and certification) are higher than the short-term premiums or differentials provided by the labels (Lazaro et al. 2008). Moreover, smallholder groups with short-term liquidity problems often prefer to earn immediate income by selling their produce in bulk on the roadside instead of dealing with the delays and complexities involved in more formal standards. Clearly, in such cases it becomes difficult to convince smallholders of the logic to supply to higher quality markets.

Nevertheless, we argue for two reasons that over the longer term a higher and more stable income can be expected from higher quality markets, notwithstanding their complicated requirements. First, we are convinced that consumer (and retailer) demand for quality will continue to rise. Second, systematic supply of higher quality products makes smallholder groups more resilient to the inevitable shocks in demand. This could be a major factor in ensuring relatively more stable incomes.

Working towards systematic quality improvement is not a luxury activity for a few well-off groups of smallholders producing for niche markets. Instead, an increasingly large share of smallholder groups needs to systematically improve quality in order to stay in business. So, while the debate on the need for quality management systems amongst groups of smallholders might have started with those few groups that were already active in supplying high-quality certified international markets, that is not where it stops. Even smallholder groups without an immediate intention to enter into a formalized certification procedure can benefit from developing generic internal management capacities to gain a better grip on product quality. So far, too few interventions and studies have looked at the tough question of in which situations it is (not yet) worthwhile to even try to become formally certified for a specific standard (for a notable exception see Lazaro et al. 2008). Nevertheless, in light of the current trends in retail, it seems likely that increasingly large shares of consumer markets for agricultural produce will be characterized by formal standards and certification procedures, including in domestic markets in Africa.

Assisting smallholder groups to improve their internal management practices is a tall order. The gap between present practices and the envisaged internalization of continual improvement is often enormous. This is why some observers expect that in the next decade or

so higher quality markets in, for example, coffee will be almost exclusively supplied through large-scale and labour-extensive production, possibly combined with centrally managed outgrower systems (Ruben et al. 2007, pp. 24-25). Our position is that with relevant and well-coordinated support, at least a significant number of smallholder groups stand a chance to achieve and maintain a position in higher quality supply chains.

This book outlines a systematic approach to work towards this ambitious goal, which starts with the implementation of a basic quality management system owned by the smallholder group, by which they identify and address their main challenges. Given the practical challenges, as outlined in Chapter 3, it seems sensible to start with smallholder groups that are already relatively better organized and experienced. In such relatively conducive settings we can develop the experience and skills required to also use this intervention for poorer, more marginalized, less well-organized smallholders. As such, inclusiveness can become an increasingly important feature in future interventions.

Figure 4.1: A new producer group entering into a PDCA cycle faces systemic challenges (blue) and thematic challenges (red).

4.3 Smallholders and improvement: Management as a development tool

4.3.1 Quality management

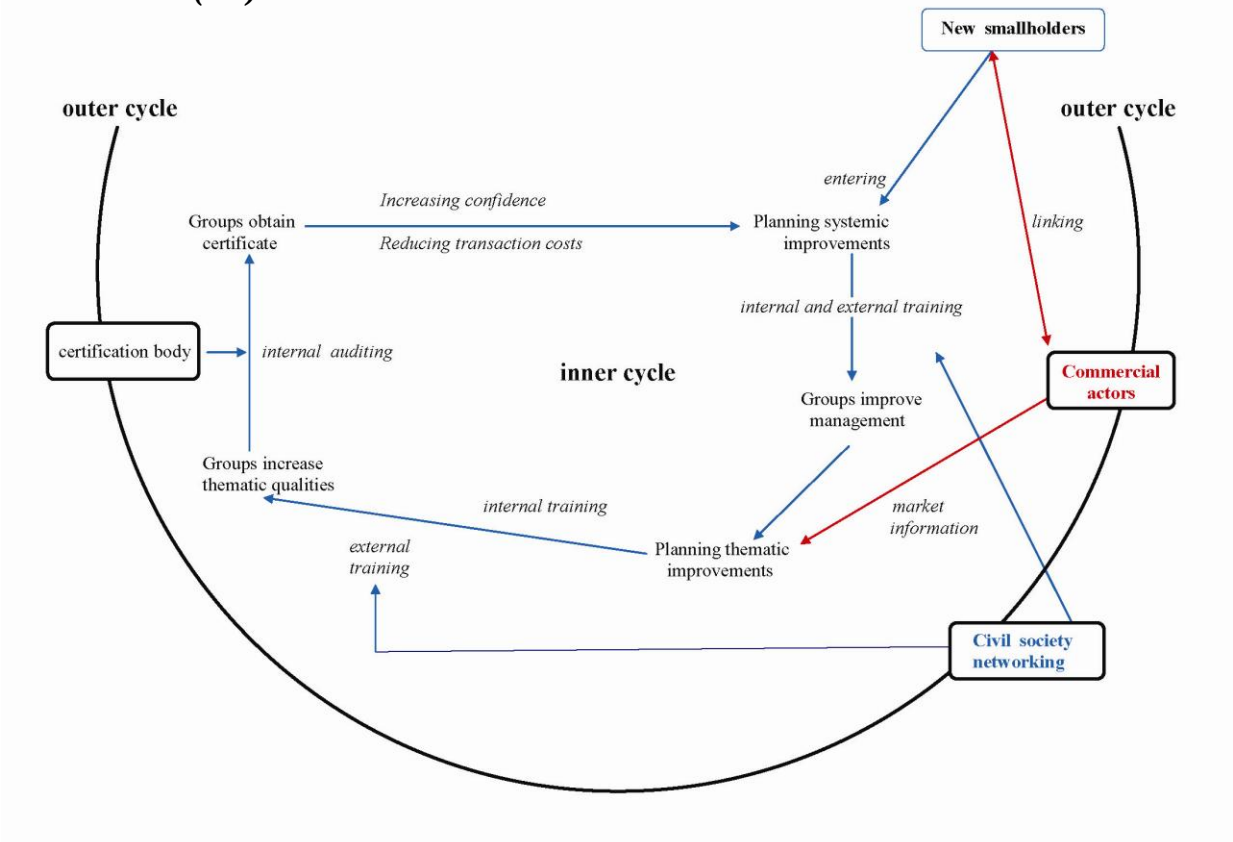
A central point in our argument is that a necessary but not sufficient condition for groups of smallholders to be able to increase their incomes and enhance their empowerment is an autonomous capacity to improve. In general, such capacity provides the resilience needed to effectively deal with the inevitable volatility of markets. More specifically, it enables groups of smallholders to more effectively respond to, for example, additional quality requirements by specific buyers or a sudden outbreak of a plant disease.

One way to organize attempts at quality improvement is with a so-called 'quality management system' (QMS). A QMS is a *systematic* way of working that helps to improve thematic qualities. For new producers it starts with a linear process, beginning with a baseline study and, most likely, a preparatory programme, then moving on to setting up a management system and determining priorities on thematic qualities that might be related to a desire to acquire an initial certificate. This linear process prepares a group to enter a Plan-Do-Check-Act (PDCA) cycle. Such a cycle systematizes the four steps starting with advance planning and priority setting, documenting and organizing how activities are to be carried out; actually carrying out the activities; checking the results; and adjusting actions by including new insights in the next cycle which starts again with the planning stage. The key point here is not so much whether to use a PDCA cycle or another management tool, but to develop, with the smallholders themselves, a systematic and appropriately documented way of working. This need not involve sophisticated software or familiarity with modern management techniques. It merely requires a common sense approach to shape a conscious and systematic way of working that helps smallholders to achieve their objectives. Going through these cycles stimulates improvements on thematic issues and helps to generate awareness of the importance of having a QMS to fall back on when new challenges emerge.

A major misconception related to quality management systems is that these systems must be perfect to work well. The truth could not be more different. A quality management system is never perfect (Distrust consultants telling you otherwise!). It is never complete or final either, because new problems and challenges always arise. While recognizing that a QMS can never be perfect, one continuously strives to improve its effectiveness.

Effectiveness and relevance of a QMS for smallholder groups can be strengthened by implementing at least the following five steps. First, use a baseline study to gain awareness of the entry level of the smallholder group in terms of its management capacity. Second, for low entry level groups, be rigorous in priority setting and simplification of initial planning procedures. Third, audit the degree of realization of the plan, and if it is unacceptably low enforce stricter priority setting and further simplification. Fourth, once the PDCA cycle is working, maintain the system and continuous efforts to improve quality, reducing persistent and new problems to acceptable levels. Fifth, increase and ensure ownership and commitment by smallholders. They need to see the quality management system as helping them to better reach their goals, without making excessive demands on their valuable time or budget. A QMS that starts from the challenges faced by small-scale farmers, at least in principle, provides a step-by-step method to address the key problems that prevent smallholders from achieving their objectives. But it only works when farmers perceive the benefits as outweighing the costs and are willing to invest time and effort to increase their capacity to improve, both individually and as a group.

Figure 4.2: The inner PDCA cycle includes systemic interactions (blue) and thematic interactions (red).



4.3.2 Priority setting

The problems of smallholders cannot all be addressed at the same time. Ways must be found to set priorities and address difficulties systematically and sequentially. A crucial point in making a quality management system useful to small-scale farmers is to start from their main objectives: prioritize hazards that prevent them from reaching their objectives and assess the likelihood and seriousness (together seen as the risk) of these hazards occurring. Such a system provides a foundation for a smallholder group to increase their ability to achieve their objectives, be it income stabilization, empowerment, or something else. This brings us to the next dimension in the discussion: establishing a basis for an internal systemic quality system that might become certifiable after an adequate preparatory and planning process.

This raises the question of why one would even wish to consider getting certified. We observe buyers increasingly pushing groups of smallholders to become certified according to a specific set of standards, as a way to become better able to sell their products to consumers. Chapter 5 discusses this in more detail and explains the various types of standards and the different roles of standards and certification bodies. For now, it suffices to mention that existing certifiable systemic quality management systems require more sophistication than can realistically be expected from most smallholder groups at this point in time. A main reason why is that at present a group cannot ‘grow into’ standards for such quality management systems, even when focusing on a limited number of priorities. Instead, groups must possess and operate such a system at full speed in one go.

A major issue for discussion with standards bodies is the need, from a developmental perspective, for them to set priorities so as to ‘simplify’, adjust and harmonize systemic quality management systems to the capacities of emerging groups of smallholders. Obviously, this should not be interpreted as a plea to ‘water down’ standards, or give smallholder groups the benefit of the doubt in certification exercises. What it does mean is that preparatory programmes are usually needed to bring groups of smallholders step-by-step to a level at which they might wish to apply for certification. From a developmental perspective, such preparatory programmes are crucial, as they allow weaker and poorer groups to enter an improvement process at a realistic level. Once a basic quality management system is operational, smallholder groups become better able to make informed decisions about possible attempts to get certified according to particular standards. Finally, they would

become able to add specific requirements for a particular standard into their evolving quality management system, and demonstrate to certifiers how their own system helps them to approach compliance. Chapter 5 introduces the top-down debate on the developmental potential of standards, especially as seen from the smallholder perspective.

5. ‘Top-down’ meets ‘bottom-up’: How standards contribute to inclusive improvement

5.1 Introduction

This chapter explores how and when standards contribute to inclusive improvement. Moreover, it tries to clarify the often confusing terminology in the discussion around standards. We start with a brief introduction to the logic of standardization (5.2), after which we overview different types of standards and their proliferation and introduce ways to address the problem of proliferation (5.3). Confusion arising from differences in terminology and proliferation of standards has hampered the interaction between standards bodies and smallholders (5.4).

Section 5.5 examines the development logic of improvement standards for smallholder groups. Next, we discuss the extent to which centralization or decentralization of decision making is desirable and possible for smallholder groups (5.6). Section 5.7 elaborates on the importance of progress indicators as a way to measure the contribution of standards to improvement processes. Finally, Section 5.8 concludes this chapter and also Part II of this book, *Reflecting on 20 Years of Experience and Knowledge-Building.*

5.2 The logic of standardization

Standards are meant to facilitate producer–customer interaction and to create confidence in the quality of the products and production processes of (far-away) producers. This should work both ways. In other words, standards should also provide producers with clarity about the preferences of (far-away) customers. Moreover, a key task of standards bodies is to translate principles and concepts into operational standards and provide guidelines for their interpretation and application. Independent certification agencies, accredited by standards bodies, carry out external audits to check whether producers comply with standards. The definitions in Appendix 1 show how our proposed definition of standardization is logically related to the definitions of management and quality.

An example may serve to explain standardization processes. In this case, consumers want assurance that they are buying a child-labour-free product. A standards body develops a standards system that validates that producers do not use child labour in their production processes. Producers who wish to convey to consumers that they do not use child labour can request information from the standards body which sets the criteria for becoming certified as child-labour-free. The standards body informs the producer of the details of the standards system and of the independent certification agencies accredited to assess the producers. The producer may then invite one of these certification agencies to do an audit, checking whether the practices and procedures of that producer conform with the requirements of the standards system. After the audit, the certification body decides whether the producer is eligible for the certificate. Such a certificate is valid for a specified period, after which the producer must apply for re-certification. As long as the certificate is valid, the producer can market its products with the child-labour-free label, which conveys directly to consumers that the products have been produced without child labour.

In the current era of globalization and enlarged physical and perceived distance between consumers and producers, the logic and popularity of standardization have received an enormous boost. Standardization has become a major feature in how private-sector actors organize their global operations. It also plays a role in marketing strategies. This has led to a proliferation of standards and fierce competition amongst standards bodies aiming to provide quality assurances in the same or at least partly overlapping domains.

5.3 Typologies of standards systems and proliferation trends

This section first describes four ways to distinguish standards and standards systems, though without claiming to be complete and without suggesting that there is consensus on these distinctions amongst our four main interest groups.

5.3.1 Zero-tolerance versus improvement standards

For this study's focus on poverty reduction and empowerment, the distinction between 'zero-tolerance' and 'improvement' standards is perhaps most important. Essentially, zero-tolerance standards consist of minimum requirements, and producers can become certified only if they

comply 100% with all requirements. In contrast, improvement standards use a process approach, requiring producers to demonstrate progress towards a (distant) objective, for example, sustainability. Standards bodies increasingly apply a mix of zero-tolerance standards ('the bare minimum to get an initial certificate') and improvement standards, for example, in terms of an improvement percentage per period.

In reality certification bodies sometimes give in to pressures from producers and buyers to provide an initial certification even before all zero-tolerance criteria are satisfactorily met. The reason for these pressures is simple. Buyers see an attractive market for certified produce and put pressure on certification agencies to award a specific certificate. Certification agencies, like buyers, are private-sector operators. They have to earn a living and balance their short-term interest in maintaining or raising turnover with their longer term interest to be perceived as a reliable certification agency, this latter so as not to lose their accreditation to certify for specific standards bodies. Similarly, standards bodies must balance popularizing their standards by getting as many certified producers as possible in their register, maintaining the confidence of consumers and keeping producers on board by not being too strict and showing flexibility when problems beyond their control arise.

5.3.2 Systemic versus thematic standards

Systemic standards focus on the capacity of producers to be systematic in addressing and controlling problems and in internalizing an attitude of improvement, as discussed in Chapter 4. A typical example is the PDCA cycle. Also, the PDCA cycle in combination with the HACCP methodology is systemic, though this latter methodology originates from a thematic food safety scope. HACCP elaborates tolerance levels of contaminations and formalizes management's aim to contain the risk of such contamination at below an acceptable level. HACCP creates a scientific basis for priority setting and is combined with the ISO 9000 management system standards in ISO 22000, which we call a thematic standards system because of its explicit scope on the food safety theme.

Thematic standards focus on topics such as the broader concept of sustainable development in fair trading practices and product quality. Thematic standards are important in the eyes of consumers. Increasingly standards systems now include both systemic and thematic standards.

5.3.3 Business-to-business versus consumer goodwill standards

The third distinction is that between business-to-business standards, like UTZ Certified and the Common Code for the Coffee Community (CCCC), and standards aiming to create goodwill in the consumer market (like Fair Trade and Organic). Consumer goodwill towards the Organic and Fair Trade standards is increasingly apparent. Even now with proliferation of standards in full swing, the goodwill of these standards continues to grow. Business-to-business standards are meant to improve the interaction between a supplier and an intermediate buyer without a link to or label for the consumer at the end of the chain.

5.3.4 Centralization versus decentralization in managing standards systems

Another differentiation is the level of participation of the interest groups in the management of standards systems. In systems with decentralized management the interest groups are invited to participate in system development and in the regular updating of the standards. The standards body essentially manages the interaction process. The ISO system, for example, is meant to be participative and decentralized. But system management can also be centralized in the hands of the standards body itself, for example, at the request of a major buyer. In that case we generally speak of ‘a company standards system’. Examples of centralized standards systems are the CAFE Practices system requested by Starbucks and the AAA Sustainable Quality Programme of Nespresso. These two centralized systems measure improvements using a scorecard. The higher the score, the more the buyer pays. For that reason these company standards systems are also called ‘value-adding standards systems’. Similarly Global Good Agricultural Practice (GlobalGAP) is ‘company driven’ by 21 leading European supermarkets. Most company-driven standards are in the first place meant to safeguard companies (usually supermarkets) against problems in their supply chain.

5.3.5 Proliferation trends

The criteria used to distinguish between the abovementioned types of standards are not mutually exclusive, nor does consensus exist on these typologies. Nevertheless, distinctions between standards are needed to identify overlaps and control proliferation, which is

particularly relevant for smallholder groups and their support structures. Unfortunately, at present few people have an overview and are able to advise smallholders in a neutral and objective way on the choice among the standards. Chapter 7 proposes a national and international network of reference groups as one possible solution to this problem.

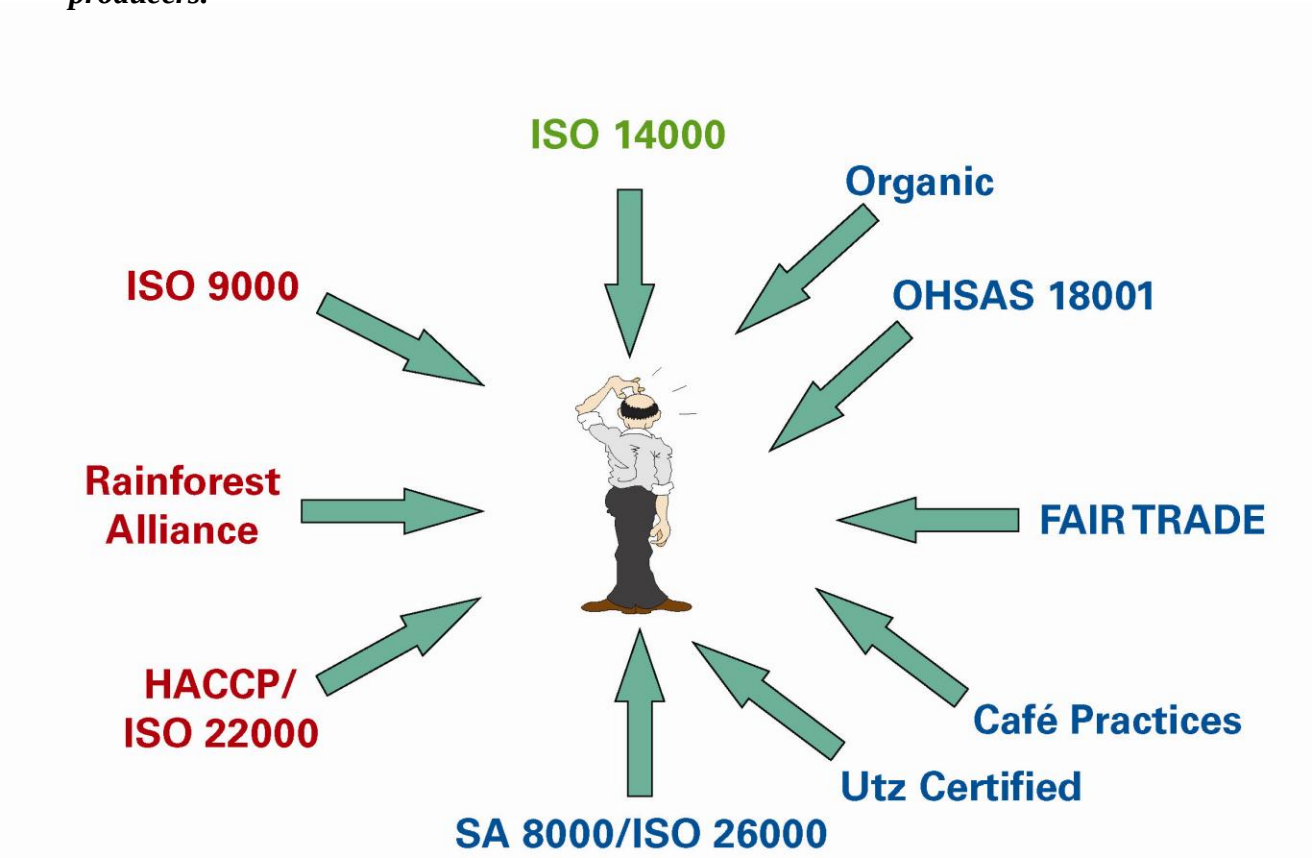
Consumers did not ask for the present proliferation of standards and are wary of the resulting confusion. Recent research indicates that consumers are likely to prefer a broad label encompassing poverty reduction and sustainable development (Loureiro & Lotade 2005). The UK Overseas Development Institute, based on a review of existing standards and labels, even suggests an overarching 'Good for Development' label (Ellis & Keane 2008). This source also emphasizes that continuation of the present proliferation could destroy consumer confidence in standards (Figure 5.1). Some private-sector operators in production chains blame civil society organizations for creating confusion among consumers about standards, and they expect these same organizations to come up with solutions. The work of the TCC, SCAN and various reference groups could contribute to finding ways to solidify consumer demand for certified produce with development-oriented labels.

Major buyers take seriously the potential influence of civil society organizations in influencing consumer demand, and many of them are seeking cooperation and partnerships in multi-stakeholder initiatives to reduce the risk of damaging their corporate image and turnover. They also realize that stability in supply is needed to ensure long-term availability of quality producers. Some civil society organizations in turn have pushed major buyers to stimulate their producers to obtain certificates from reliable standards systems to enhance the turnover of certified produce. Civil society organizations and the more committed buyers agree that all major buyers should go for certification to avoid unfair competition and create a level playing field.

Fortunately, further proliferation of standards has slowed and perhaps has even stopped. Recent attempts to counter proliferation thus seem to have been successful. An increasing number of buyers agree that compliance with one standards system should be enough. Though standards bodies often continue to push buyers and sellers to go for 'their' standards system, buyers increasingly treat the various standards as interchangeable. Moreover, buyers increasingly opt for improvement standards, leading to greater emphasis on management and on ISO 9000 as a globally accepted basis for management standards. The ISO system has successfully standardized definitions and is gradually covering many of the

aspects mentioned above. Unfortunately, so far it operates at too high a level of abstraction and with too high a threshold level, which means it still excludes low entry level smallholder groups.

Figure 5.1: The proliferation of standards systems often mystifies consumers and producers.



5.4 Standards and smallholders: Where do the two meet?

Despite recent attempts to push for more collaborative standards initiatives (AccountAbility 2007), the practice of most standards and certification bodies is not well attuned to the specific situation of smallholder groups. Standards bodies typically start from their own market position with a top-down attitude. They tend to use their own definitions and impose specific operational indicators on certification bodies. In turn, certification bodies tend to 'go through the list and tick the boxes', without first checking whether producers understand the letter and the spirit of the standard and whether the management system of the group is strong

enough to achieve compliance. Moreover, most of the standards systems possess very substantial overlap in terms of real content. But there is no functioning multi-certification mechanism by which groups of smallholders could submit, say, Certificate A to get an 'abbreviated' certification process for Certificate B. Therefore, applying for an additional certificate is now much more difficult than necessary. Moreover, for smallholders it is impossible to internalize the principles behind all of the distinct standards and include the various prioritized issues in their Plan-Do-Check-Act cycle. It is also difficult for smallholder groups to assess which standard is most likely to capture an increasing market share. Finally, and most importantly, many standards, especially development-oriented standards, elaborate and prioritize thematic issues, while the main issue for strengthening the position of smallholder groups is improving their management system. All of this means that we are far from fully realizing the developmental potential of standards.

5.5 The development logic of improvement standards

Given smallholder groups' existing capacities it is unrealistic to expect many of them to comply with elaborate zero-tolerance standards. They can, however, latch on to the logic of improvement standards, especially when given time to work through a preparatory programme. This leads to the following as yet unresolved issues. First, to what extent can regular (ISO) management standards be simplified and adapted to the entry level of smallholder groups? Part of the simplification will have to come from rigorous priority setting followed by sequential implementation; and part will have to come from simplification of the PDCA cycle. Second, to enhance inclusiveness within a smallholder group the group needs to be aware that the weakest members determine the quality of the (bulked) group product. Therefore, the group might present an ultimatum to its weakest members, 'Either join the quality improvement process or stop delivering produce.' Can a management model be designed with a focus on this message and with optimal transparency? Third, on-the-job management training is expensive, but experience shows that large amounts of money can be earned and saved through better management, suggesting it might be cost effective. This suggestion is countered, however, by the knowledge that combining (many) thematic qualities easily increases transaction costs beyond break-even and even beyond the limits of what a group can bear. It would seem that harmonization and simplification of existing systemic

management standards should be given priority and combined with an improvement standards system designed for low entry level smallholder groups.

5.6 Centralizing versus decentralizing decision making

5.6.1 Introduction

Another important unresolved issue for smallholders is the desirable and possible level of centralization in managerial decision making. Many buyers, civil society organizations and standards and certification bodies consider it too expensive and slow to create room for decentralized decision making, which implies an expensive tailor-made process approach over at least several years. They push the weaker producer groups into centralized decision making by means of outgrower systems and contract production, which cause fewer problems in certification. They organize auditing with the same centralized, blue-print minimum requirement approach and seldom act upon recommendations in the audit reports.

In practice a smallholder group and its supporters need to situate their decision making on the continuum between pure centralization and decentralization. For example, when trust is growing more centralized decision making can be accepted, yet when problems arise members will likely want to take their own decisions. A baseline study at the start of a three-year plan should include an analysis of trust and acceptance of more centralized decision making. If it exists, shortcuts can be taken and the process can be faster.

In large producer groups (say 6,000 members) central management cannot achieve improvements in a centralized way. If only for practical reasons, such groups must decentralize some decision-making areas (see the example in Appendix 5). Also there is a need for decentralization in management training, creating room for own responsibility, making mistakes and recognition of own weaknesses and improvements.

A number of possible criteria can be listed to situate a producer group and its supporting organizations on the continuum between more centralization and decentralization. First is the size of the group, as large groups will need a plan and defined roles, as well as contracts and procedures. Second is the extent of physical distance and differences amongst production sites, as a smallholder group might consist of 6,000 autonomous farmer families on 6,000 different farms grouped in various ecological zones and could also include

processing units. Third is the intensity and transparency in communication and the degree of actual delegation according to specified roles, contracts and procedures. The question of centralization versus decentralization can be examined further by focusing on step one in the PDCA cycle, planning.

5.6.2 Centralizing decision making in planning

For decision making in planning in low entry level smallholder groups a distinction should be made between the management system plan and the thematic plan. Ideally the thematic content determines the system, including the decision making structure. But in large producer groups with a weak management system and procedures it is difficult to create clarity on thematic content. In such cases, planning must start with more centralized decision making on the systemic and procedural levels with the expectation to enter into an upwards spiral in which the system and the thematic content will become more and more adapted to each other. After a few cycles, decision making can become more decentralized.

More decentralization in thematic decision making means delegation to leaders of subgroups and managers of processing units. But the persons who plan should remain responsible for the implications of their decisions. Decentralization implies PDCA cycles at different layers in an organization. Responsibility for the implications of decision making also implies that checking and acting upon checks has to be planned in a decentralized way.

Systemic and procedural centralization and decentralization in thematic content may seem contradictive, but a guided upwards spiral can improve the interrelation. Trainers can facilitate the planning process by insisting on clarity and strict priority setting and by checking understanding and agreement among participants at meetings. Their challenge is to leave room for management to lead the thematic planning in a decentralized way.

5.6.3 Centralization and auditing

Decision makers need to be confronted with the implications of their decisions. They must build reporting into their management system, and reports need to be audited, internally and externally. In our pilot projects auditing appeared to be problematic, lacking clarity and

improving only slowly. These experiences suggest centralization in an initial phase, until greater clarity and transparency can be realized.

Most standards bodies require group certification in groups with decentralized decision making. Standards bodies use the words ‘group certification’ and ‘multi-site certification’. Group certification relates to a number of entrepreneurs (farmers) who have decided to operate as a group in the market while maintaining a certain degree of autonomy in decision making. Multi-site certification emphasizes that the produce sold in the market originates from different production sites (farms). In both cases, internal auditors have to visit and check the reporting of all the entrepreneurs and production sites. In either case the external auditor must validate the performance of the internal auditors. It seems logical that decentralization of decision making is a more important criterion for group certification than production at different sites. However, when deciding where group certification can be applied, standards bodies also need to clarify other issues, such as, ‘When is group cohesion amongst the individual entrepreneurs strong enough to allow group certification?’ The answer is important because group certification is supposedly more effective and cheaper than individual certification. Another issue would be to investigate when physical distances between production sites and weak communication impose group certification. A third issue is when will centralization be strong enough to allow individual certification of the whole society instead of applying group certification to the membership. The answer to this question is important, because certification of a society as a single entity is typically less complicated and costly than certification of a group of entrepreneurial members.

Centralized decision making appears to facilitate internal auditing, the selection of an adequate certification body and synergy between internal and external auditing. These tasks seem too complex to handle in a decentralized way. Even at the central management level the cooperative societies in the pilot projects lacked capacity to handle these issues expeditiously. Only gradually, after making mistakes, did auditing slowly start to improve.

5.6.4 Centralization and ‘acting’

The last step in the PDCA cycle is acting upon the conclusions in the audit and certification reports. Major obstacles in the pilot projects were the hiding of reports, the difficult language in the reports and emotional reluctance to deal with conclusions on weaknesses or mistakes.

In the frequent review meetings of the coffee cooperative societies, with large numbers of promoter farmers participating, it appeared possible to gradually overcome these obstacles and improve the 'acting' upon audit reports. This positive result is partly explained by the presence of external trainers at the meetings, the ongoing process of adapting expectations to the capacities available, agreement among those present to prioritize remediation of weaknesses, and agreement on indicators of progress towards the objective.

But without 'decentralization' in the form of the promoter farmers participating in discussing the audit reports, it would have been more difficult and time consuming to achieve improvement at the board level of a cooperative society. The increasing pressure to improve, as exerted by promoter farmers on board members, is one clear sign of how increased awareness and empowerment of farmers stimulates broader improvement processes.

5.6.5 Conclusions on centralization of decision making

We can conclude that producer groups and their supporters continuously search for an appropriate balance on the continuum between centralization and decentralization. In some decision-making areas, decentralization can increase when promoter group management becomes stronger. But a process towards more decentralization is slow and requires progress indicators. This process is however facilitated when many smallholders are reluctant to centralize decisions, based on arguments such as a lack of trust in the existing central management, pride in being an autonomous entrepreneur, and a general reluctance to submit to bureaucracy, which they expect to be greater with central management.

Neither centralization nor decentralization automatically lead to more quality or a stronger market position. The experiences in the coffee pilot project suggest that to achieve inclusive improvement, some form of decentralization is required in planning content, in auditing and in acting upon auditing. Actors in the outer cycle have an important role to play in helping groups maintain and periodically re-assess their desired balance between centralized and decentralized management.

5.7 The importance of progress indicators, scores and rating

Problems and slow progress in auditing are partly caused by reluctance to deal with weaknesses and mistakes. In the coffee project this reluctance was partly overcome by agreeing on thematic progress indicators. The percentage of premium grades in total output was to increase from 50% to 75%; and a specific target quantity of coffee was set, expressed in kilograms per tree, to be brought to the wet mills and accepted. Agreement on these progress indicators, combined with progress towards them, made it easier to deal with weaknesses and mistakes.

The decision to work towards compliance with the CAFE Practices standards system contributed too, for a couple of reasons. First, coffee quality is the first objective of CAFE Practices. The standards system works with a quality scoring card and requires a yearly improvement of the score to maintain the certified status. Second, it includes zero tolerance standards, such as on the salary paid to hired farm workers. However, while according to CAFE Practices salaries must be above the nationally fixed minimum level, salaries in the pilot projects appeared to be below this threshold. Nevertheless, the fact that these areas of non-compliance became clear helped to consolidate improvement processes.

Planet Rating (a specialized microfinance rating agency), Agrofine (an international non-profit that enhances fair trade financing flows) and FLO intend to elaborate a rating and scores for FLO-certified producer organizations. This initiative could make a similar impact by accepting an initially low rating and taking on the challenge of improving the rating, whilst realizing that even the weakest farmers must meet minimum requirements.

Initially agreement on systemic progress indicators was difficult to achieve in the coffee project. That discussion could fruitfully begin only after thematic improvements had been achieved and had raised the level of trust. There was agreement from the start to give special attention to the weakest 10% of farmers in each group. This was not for poverty reduction, but because the quality of the bulked product of the group is determined by the quality of the product of the group’s weakest farmers.

5.8 Conclusion

To more fully realize the developmental potential of standards, especially two areas require improvement. First, standards need to be developed in such a way as to be more sensitive to the needs and present limitations of especially the lower entry level smallholder groups. This means, for example, investing in realistic preparatory modules and focusing on systemic dimensions of the emerging quality management systems of smallholder groups. Second, the various standards initiatives and related certification agencies need to better coordinate their activities. To mention two examples, they need to facilitate multi-certification, a crucial issue for smallholder groups, and they must find ways to overcome the sometimes destructive competition between standards systems and certification agencies.

This concludes the stock-taking part of this book. The next and final chapters, in Part III *The Way Forward*, propose an interaction model that enables smallholder groups to benefit more from standardization processes.

Part III. The Way Forward

Chapter 6 and 7 form the third part of this book. While the Part II pulled together existing know-how and the experiences of HIVOS in promoting inclusive improvement processes, this third part offers a way forward. We propose solutions, make a case for their feasibility, and move from the static analysis of the earlier chapters to a dynamic process approach based on continual improvement cycles or spirals. After all, improvement is a never-ending process. Chapter 6 visualizes this through two interconnected improvement cycles, an inner cycle of improvement processes in producer groups and an outer cycle of improvement processes in the support structure. Finally, Chapter 7 discusses how we might get closer to our stylized interaction model and provides individual recommendations for the various interest groups.

6. An interaction model for civic-driven change in markets

6.1 Introduction

This chapter visualizes a stylized interaction between an inner and an outer cycle, in which both cycles rotate towards continuous improvement in quality and service delivery. While no real situation may ever fully resemble this ideal picture, it nonetheless provides a sense of direction to think more systematically about the way forward. We also explain the necessity of continued coordination and adaptation of the interaction between the two cycles to keep groups of smallholders in the system. First, section 6.2 presents a description of how in the inner cycle a new producer group might build up autonomous management capacity and obtain an initial certification to enter the existing system. Next, section 6.3 develops an interaction model for the outer cycle and its interaction with the inner cycle.

6.2 A new producer group entering an inner cycle

This section describes the process by which a new producer group can enter an inner PDCA cycle in order to build up autonomous management capacity and obtain initial certification. Four steps are distinguished. The first is to supply the preconditions in the outer cycle to get the process moving. We briefly discuss the preliminary conditions needed by support organizations, commercial buyers and producer groups to start working towards certification. At an abstract level, there is little conflict of interest amongst these actors; they all wish to respond to the increasing demand for inclusiveness and sustainability, translated as a demand for certification. The real problems arise when commercial buyers, support organizations and producer groups begin to operationalize these general objectives into an initial improvement plan. Challenges emerge when initiating the cyclical implementation of the first plan. That plan must then be expanded and detailed in the subsequent cycles, while involving additional support organizations, including funders, trainers, standards and certification bodies and, especially, system coordinators. This process should lead a new producer group towards obtaining initial certification. Furthermore, by internalizing a continual attitude of

improvement and building up autonomous improvement capacity, producer groups develop tools with which they become more resilient to changing demands. Thus, a new group finds its way into the existing imperfect system.

6.2.1 Preconditions

The process starts with the observation that many consumers wish to (be seen to) contribute to inclusive improvement among smallholders and sustainable development, in response to, among others, awareness campaigns by civil society organizations. In turn, commercial buyers observe the increased demand for poverty reduction attributes, and those who wish to respond seek efficient ways to deal with the additional costs involved in providing such products to consumers. Last but not least, the process takes off when (groups of) producers perceive these types of demand as a feasible opportunity to strengthen their market position, and, often through mediation by civil society organizations and standards bodies, are brought into contact with commercial buyers.

6.2.2 Planning phase 1

Once producer groups, commercial buyers and civil society organizations have established contact, an initial division of tasks and authority needs to be established. Commercial buyers usually determine which standard to go for, depending on their perception of the qualities preferred by their targeted consumer group and to secure long-term supply. The civil society funder may offer to support improvement processes to acquire certification according to that standard, and if so, has to start operating as system coordinator of service providers in the outer cycle. The producer group in the inner cycle preferably owns the initiative to set up and stepwise develop their improvement plan to acquire the necessary certificate.

It is this stage where the first tensions and conflicts of interest potentially become visible with actors in the outer cycle, revolving around the question of who determines the choices to be made and who owns what part of the process. If these challenges can be addressed, the result of this first phase is an initial improvement plan to acquire the preferred certificate.

6.2.3 Planning phase 2

The producer group's initial improvement plan now needs to be made implementable through three related actions: contacting standards bodies to ensure understanding of the specific requirements, initiating a baseline assessment of present practices and incidences of non-compliance, and identification and invitation of appropriate trainers. It is the role of standards bodies to inform producer groups of the ins and outs of their standards, and to suggest accredited certification bodies. In turn, these certification bodies may carry out a pre-audit, to alert the producer group and their trainers to the main remaining areas of non-compliance. Finally, civil society funders, for example, of training activities take on an increasingly important and difficult role as coordinators of the interaction system between the two cycles.

6.2.4 Obtaining an initial certificate

In this phase persons in the civil society network need to take the lead in interactions, managing expectations and composing multiparty arrangements. They should support the build up of a local training infrastructure and of appropriate external and internal auditing facilities at the local and national level. The support structure funds and supports the implementation of improvement plans, while trying to avoid situations in which a producer group becomes too dependent on one buyer. Moreover, they assist the producer group in carrying out a baseline survey and developing progress indicators for its improvement plan. Finally, the civil society network facilitates the initial selection of trainers and monitors the external and internal training efforts. In the inner cycle, the producer group develops an attitude of improvement at the group level. It decides when to request a pre-certification audit and subsequently how to respond to major remaining areas of non-compliance. The outcome of the implementation phase is the build-up of preliminary management capacity by the producer group and its obtaining an initial certification.

6.2.5 Autonomous management capacity and continual improvement

Obtaining an initial certificate, however, is not the end but rather the beginning of a process of cyclical improvements. Through internal and external quality management training, producer

groups develop and in sequential cycles improve their internal quality management system. Improvements in internal auditing enable producer groups to reduce the costs of certification and transactions and improve systemic quality management. This progress can be used in the next cycle to more systematically set priorities, plan improvements and organize internal and external training addressing remaining specific areas of non-compliance. After addressing these, a producer group can organize another internal and external audit as a basis for maintaining its certification. The group's increased confidence as a result of maintaining the certification can bolster planning for another round of improvements. While present support structures tend to hamper optimalization of the improvement cycle, it appeared to be achievable in at least one of the pilot projects. As discussed in Chapters 4 and 5, even though it seems more logical to start with systemic improvements through a basic quality module that functions as a point of departure for thematic certification, there are reasons to combine systemic and thematic targets from the start.

Initially the systemic targets may be externally 'imposed' through more centralized decision making. But once producer groups become familiar with improvement processes, and start seeing the need to internalize a continual attitude of improvement to gain a foothold in quality markets, the strategic importance of systemic improvements reveals itself. These cyclical improvement processes, in our stylized example, can set in motion and reinforce a process of developing autonomous management capacity in producer groups. This autonomous management capacity is a crucial asset for producer groups to be able to effectively respond to the inevitable volatility in their product and factor markets.

6.2.6 Conclusion on entering the inner cycle

Bringing new producer groups into the existing system is possible, as demonstrated in Chapter 3. While our stepwise description of the process might give a rather smooth and continuous impression of how new producer groups enter the 'certification' system, the reality is characterized by shocks – two steps forward followed by one step back – and a relatively high rate of failure. Moreover, this process is fraught with difficulties when the producer group has a low initial level of relevant capabilities. Nevertheless, the basic message is that bringing in new groups is possible and that the above steps are a useful way to operationalize the process.

6.3 A stylized interaction model for the outer cycle

6.3.1 Introduction

Our stylized outer cycle depicts an effective support structure, consisting of civil society organizations, trainers and standards and certification bodies, together ensuring increased demand and supply of certified produce. While the proposed ideal interaction model is unlikely to ever be fully realized, the aim is to provide a guiding longer term perspective that gives a sense of direction for future interventions. We present the model in three steps. The first step discusses how civil society actors in the outer cycle attempt to increase demand for certified produce and must continually enhance the inherently fragile consumer confidence in the idea that buying certified produce contributes to sustainable development. Success in this direction leads to increased demand for certified produce. The second step focuses on strengthening the support structures that enable supply of certified produce to follow increased demand. It deals with improving the capacity of trainers, certification bodies, standards bodies, and reference groups to provide direct or indirect support to the producers groups supplying certified produce. The third step examines the interaction points between the support structure in the outer cycle and the inner cycle of inclusive improvement by producer groups.

6.3.2 Increasing consumer confidence to enhance demand for certified produce

Consumer confidence in standards is inherently fragile. All actors in the system are continually challenged to raise and maintain awareness among the various consumer groups that these standards actually do contribute to sustainable development. Yet consumers are overloaded with information. By and large they prefer simple consolidated labels. So to win consumer confidence transparency is an increasingly important requirement. Consumers tend to purchase products with a quality label or brand that reflects their preferences. Consumer confidence is strengthened when products conform to these preferences. Civil society creates and strengthens consumer expectations of products, for example, by informing shoppers about thematic qualities in the chain, by lobbying for support to address major problems and by creating labels for ‘responsible’ products. As consumers purchase more of these quality

goods, the goods become mainstreamed, which facilitates the creation of level playing fields and better access to markets for the smallholder groups that participate in systemic improvement processes.

In short, civil society organizations need to be able to explain how standards contribute to sustainable development, and they must strengthen the credibility of standards systems, including their certification and auditing practices. This increases demand for certified produce, a precondition for maintaining inclusiveness in the inner cycle. After all, for new groups to be able to enter the system, overall demand for certified produce must increase. To arrive at such virtuous cycles, it seems necessary for civil society organizations to continue performing their roles as facilitators and watchdogs.

6.3.3 Enabling and maintaining increased supply of certified produce

Groups of smallholders in the inner cycle continuously need information and support services to align their improvement processes. First of all, actors in the inner and outer cycles should have capacity to list and prioritize problems hampering the further realization of objectives in the inner cycle. Logically they should first look at systemic problems and secondly at the thematic issues. Secondly, civil society has an important task in performing and improving its own service-rendering role. At the systemic level, such performance relates to baseline surveys, gap analyses, and identification of existing management training capacity including auditing. Thematic aspects include contributions to improved agricultural practices and financial service rendering, increasing social and environmental quality in production processes, curriculum development, and the like.

Improving its interaction with the two other interest groups in the outer cycle (standards bodies and buyers) is more complex. Getting the Plan-Do-Check-Act Wheel working in the outer cycle is a challenge. Who has the capacity and legitimacy to coordinate the improvement of interaction? Our approach has been to use pilot projects and to develop agreement on progress indicators to convince other interest groups of a way in which improved interaction might be achieved. The outer and inner cycle potentially interact at several points, but we focus on two main types of interaction. In the first, producer groups supply certified produce in response to demand. In the second, producer groups call upon

support structures in the outer cycle (especially trainers and certifiers) to assist them in supplying certified produce.

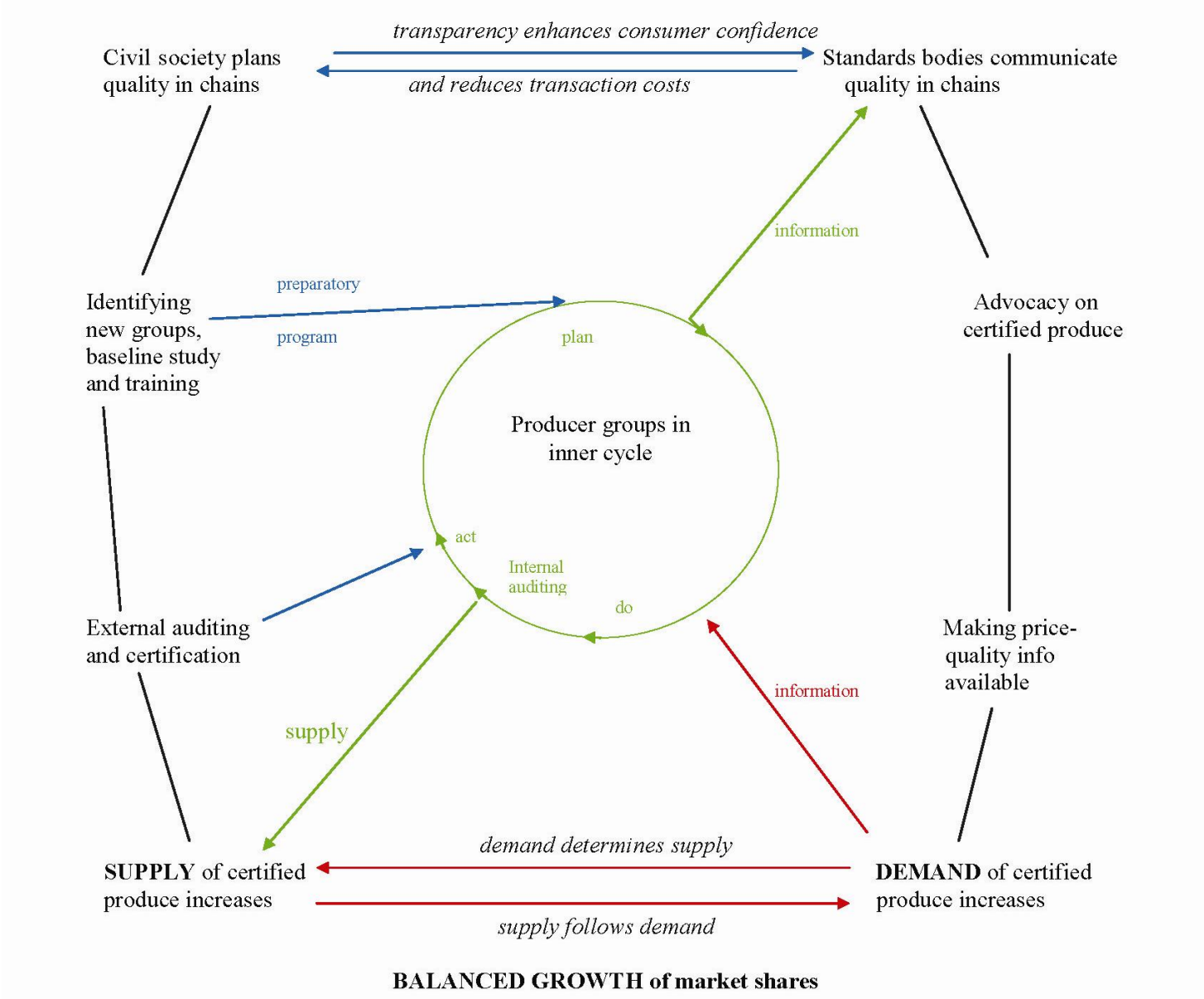
6.3.4 Maintaining balance and consistency in the outer and inner cycles

Coordination and system management should be driven by agreement on objectives and related progress indicators. Management of the inner cycle is mostly guided by the aim of increasing and stabilizing smallholders' incomes. Correspondingly, management of the outer cycle should be mostly guided by expanding and creating balance in the market for certified produce. Nonetheless, management of the outer cycle is problematic because each of the different interest groups has its own jargon. Each also has a very different type of organization and staff. Though they might share an ultimate objective, they differ markedly in their daily practices. Therefore, civil society needs to explore other ways to 'coordinate' with the negotiated consent of the other main interest groups. The interactive improvement process between the two cycles needs to be guided by transparency and completeness of support and proper timing. This may mean, for example, the following:

- provision of a regular overview of quality-price relations in markets plus training in data interpretation skills;
- formulating clear audit and certification reports which are made available in a timely manner;
- developing training curricula in a timely manner when weaknesses or opportunities appear;
- interaction on the feasibility of plans at the start of each new Plan-Do-Check-Act cycle;
- interaction on the logical sequence of improvement activities;
- agreement on and monitoring of progress indicators for systemic improvement.

This completes the description of our stylized interaction model. The final step, taken in the next chapter, is to pull together our ideas on how to improve interaction within and between the inner and the outer cycle and providing recommendations on how the four interest groups might catalyze the process of getting closer to our model.

Figure 6.1: Interactions between the outer support cycle and the inner management cycle of a producer group



7. Towards more effective support to smallholder improvement

7.1 Introduction: Underperformance of the existing support structure

For the inner cycle of improvement processes, that in producer groups, we have concluded that more focus on strengthening autonomous improvement capacity in smallholder groups is of crucial importance. Moreover, we find that present practices do not focus sufficiently on a simple but functioning management system.

For the outer cycle, we have concluded that improvements are inhibited by a lack of systematic interaction between the various actors in the support structure. In some cases, the actors in the outer cycle have even demonstrated diminishing overview and understanding, which makes it difficult to consolidate improvements at the producer level and to meet consumer expectations.

This chapter presents some possible solutions and identifies remaining challenges. We start with issues related to the inner cycle (7.2), after which we look at how interaction in the outer cycle might be improved (7.3). Next, we present our recommendations to each of the four interest groups (7.4). Finally, we complete the cycle of this book, returning to the starting phase to begin a next cycle (7.5).

7.2 Improving smallholder operations

A main obstacle to improving the performance of smallholder groups is the lack of a simple but functioning management system by which groups can identify and address their major problems. Such a basic system would also enable them to address thematic qualities, as required by the various standards bodies. The situation at present pushes smallholder groups to be certified based on thematic issues, even though their systemic management capacity is typically not sufficiently strong to provide a foundation on which to build thematic improvements. A longer term training approach is needed, with an initial focus on the management system. For low entry level groups, the actors in the support structure should

agree on a simplified management standard, a model of which is suggested in Appendix 8. At least one thematic element should be added from the start since management improvement alone has been found to be too abstract and lack sufficiently direct incentives. If management improves, more thematic elements can be added in the order of priority decided upon by the smallholder group.

A major remaining challenge is the question of how inclusive this approach can be. In other words, what capacities do groups already need to possess before they can enter such an inner cycle improvement process? Important sub-questions in this regard are, 'What incentives do poorer and weaker groups have to enter such a system?' 'How long does it take before they experience benefits from entering such an improvement process?' And, 'Who will assist these low entry level groups in getting to a level at which they might enter a formal improvement-oriented certification process?'

To address these questions we proceed along two lines. First, we open a discussion on the need and financing for so-called 'preparatory brigades'. These are organizations specialized in assisting smallholder groups far removed from minimal entry standards. Such 'preparatory brigades' need to combine the skills of quality management professionals with the skills to organize and work with poorer smallholder groups. Most importantly, 'preparatory brigades' need to build bridges between these often very separate domains of knowledge. They can support poorer smallholders in developing and owning a basic quality management system that also fits as a stepping stone for possible future certification processes.

Second, we aim to empirically substantiate our claim that investing time and effort in systemic quality management makes sense. To do so, we will increase efforts in longitudinal data collection among the smallholders in the pilot projects already initiated by ISEAL (ISEAL 809). This data will follow developments in costs, benefits, turnover, productivity, product quality, profits, income, and number of neighbouring cooperatives wishing to join a project, as well as more systemic indicators such as consent to discuss weaknesses and capability to autonomously deal with persistent and newly emerging problems. As part of this data collection endeavour, special effort needs to be made to identify what happens to the most problematic and poorest smallholders in a group once they start such an improvement process. Are they pushed out or pulled along? Finding answers to these questions will provide us with more solid information with which to develop ideas on how low a group's entry level

can be, or, in other words, how inclusive the approach can be made. While the data in Chapter 3 give reason for optimism about what can be achieved, longer term monitoring of improvement processes in a broader variety of cases is needed to substantiate the approach.

7.3 Improving coordination in the outer cycle

Our main conclusion on the present support structure is that it is not sufficiently geared to the needs of smallholder groups and it lacks cohesiveness and consistency. Chapter 6 found that there is no easy solution to this problem because no single actor has the authority and legitimacy to coordinate or manage the support structure in a constructive manner. Nevertheless, this section outlines some steps towards addressing this problem. We distinguish between different means of improving coordination in the support structure. First, based on our experience in the pilot projects, we list four 'support services' that need to be given higher priority. Second, to harmonize interventions, we propose alignment of the logical frameworks used by the various civil society organizations in the outer cycle. Third, we propose a discussion on the usefulness of reference groups and knowledge exchange networks, as vehicles for strengthening the 'voice' of smallholder group interests in the functioning of the outer cycle. Finally, we briefly discuss the possible role of government actors in improving coordination in the support structure, and we raise the issue of whether it is desirable and feasible for civil society organizations to claim a permanent role in managing the outer cycle.

7.3.1 Priority services for enhanced cohesiveness in the outer cycle

Generally speaking, those participating in the outer cycle should regularly check whether their investments contribute to the proper functioning of the support structure and whether their interventions actually benefit smallholder groups. Based on experiences in the pilot projects we distinguish four priority 'services' to enhance cohesiveness in the outer cycle.

The first priority service is 'the carrying out of more in-depth baseline studies and initial training'. This is the initial step in an improvement process initiated from the outer cycle by civil society and commercial actors, producer associations and governmental extension services.

The second priority service is ‘the development and adaptation of standards systems to make them more “developmental”’. The idea here is to enhance the extent to which standards systems can become useful sources of information and inspiration for smallholder groups, even for those groups that do not yet fit into the system. After all, all standards bodies have the continual task of improving interaction between customers and producers. To do this, standards bodies might consider the following actions:

- analysing production chains with more of a focus on poverty reduction and sustainable development;
- identifying opportunities for improvements in both poverty reduction and sustainable development;
- developing verification protocols based largely on internal auditing;
- lobbying for a steady increase in demand for products certified according to their standards;
- making greater use of their labels to profile products from inclusive and improving production processes;
- developing their identity to meet customer demand for products from inclusive and sustainable processes;
- increasing customer trust that their standards systems contribute to poverty reduction and sustainable development.

The third priority service is that ‘civil society organizations lobby consumers to buy more certified produce and push buyers to take more responsibility for their supply chain’. Buyers will likely agree to strengthen their responsible behaviour on the condition that civil society organizations speak with one voice and are transparent as a group.

The fourth priority service is ‘finding ways to simplify system standards and certification procedures for smallholder groups’. This will require action by training organizations and their funders, supported by standards bodies (see also Appendix 8). Their efforts could provide the basis for development of generic training modules for use by smallholder groups at various entry levels, to be elaborated by training organizations at the country level. Moreover, such generic modules could be used to develop capacities for management system auditing and generic training of auditors.

7.3.2 Fine-tuning logical frameworks

To harmonize interventions, we propose an effort to align the logical frameworks used by the various civil society organizations in the outer cycle. Organizations in the outer cycle should discuss their logical frameworks and try to meld them into one common framework with a single set of progress indicators. Funders and major buyers could ask for such a common framework to justify their support. The discussion should start from the 'logical framework language' typical of civil society organizations and their funders, which requires acceptance and adaptation by the other interest groups.

Each organization expresses its intentions in a logical framework and discussions are organized to raise understanding and recognition of different roles in the outer cycle. Appendix 6 suggests a starting point for such a discussion, which is expected to lead to numerous benefits:

- better understanding of complementarities of organizations within a network;
- fuller coverage of the cyclic processes in the outer cycle, rotating in two directions;
- problem listing, priority setting and targeted improvements;
- justification for structural and long-term support to system coordination;
- upscaling and replication to other chains and countries by funders like HIVOS, global product-specific training organizations like CSN, and network structures like the International Institute for Sustainable Development (IISD) and SCAN. Their continuance with pilot projects will provide future examples and bring clarity on planning and coordination.

7.3.3 Reference groups and knowledge exchange networks

On top of the already suggested steps towards improved coordination, we want to open a discussion on the usefulness of a reference group. A reference group consists of a country-related network of specialists from a particular product chain, a knowledge base and a convener, who is also responsible for keeping the knowledge base up to date. The convener develops capacity and procedures in advance so as to adequately (within two weeks) contribute to problem-solving processes. An ideal convener would be an experienced and well-recognized actor in the product chain of a producer country. The convener needs to be

able to maintain neutrality in conflicts through excellent negotiation and mediation skills. The convener also maintains and updates a database of trainers and consultants, including client ratings. The more specialized a convener is -- for example, in one production chain in one ecosystem in one country, with a focus on smallholder production -- the more operational, adequate and reliable the reference group can be. Further tasks and the composition of reference groups are elaborated in Appendix 9.

While reference groups are organized around a particular product chain, knowledge exchange networks offer opportunities for knowledge exchange between chains and countries. Such knowledge exchange networks could bring together people from various countries and working on different product chains, but with a common focus on stimulating inclusive improvement processes. Smallholder representatives, trainers, civil society and funding organizations as well as researchers and policy advisors could exchange knowledge on emerging good practices in setting up and developing accessible quality management systems that assist smallholders in enhancing empowerment and improving incomes.

7.3.4 The role of government in the support structure

This book has paid little attention to the possible role of government agencies in the support structure. Nevertheless, government agencies, at least in principle, play an important part in consolidating and generalizing practices, if not also in initiating them. Notwithstanding the risk of losing some of the needed flexibility in managing the outer cycle, in many contexts only government agencies possess the legitimacy to coordinate. We must begin a debate on better coordination of the support structure, with which actors, while maintaining the required flexibility to take short-term actions as well as steering towards the long-term objectives of poverty reduction and sustainable development. In this process, governments, buyers, standards bodies and civil society organizations need to assist smallholder groups without undermining their autonomy (as also emphasized in the World Bank's 2008 *World Development Report on Agriculture*).

This also raises the issue of whether it is desirable and feasible for civil society organizations to claim a permanent role in managing the outer cycle. At this moment in time, we do not as yet see an exit strategy for the involvement of civil society organizations in this domain of work. The experiment of finding ways to assist poorer smallholder groups in using

appropriate quality management systems to reduce their poverty and enhance their empowerment has only just begun. It is far too early to present robust formats that can be upscaled lock, stock and barrel by government agencies in various sectors in different countries. Moreover, it is uncertain whether development of blueprint formats can be expected at all, given market volatility and product and location specificities.

7.4 Recommendations to the four interest groups

7.4.1 Introduction

This book has demonstrated the need to more systematically manage improvements in the outer cycle. All four interest groups must contribute to this process. For the time being, we propose that civil society organizations take the lead and promote improved interaction with and among the other three interest groups. We assume civil society organizations are ready to play this role. In our view, civil society organizations could start by adopting and simplifying the recommendations of this study, possibly adapting the findings to specific producer countries and products. It also means investing in interaction with the three other interest groups, while respecting their roles. This requires a long-term process approach with short-term progress indicators. Appendix 7 gives examples of indicators with which to measure improvement in the performance of the interest groups. Logically the process starts with reaching agreement on opportunities and objectives (see also Appendix 6). To make progress, there must first be recognition that the joint management capacity in the outer cycle is weak, and that prioritization is important and needs to be respected. Our suggestion is to put management and inclusiveness higher on the priority list, moving thematic qualities lower on the list. The subsections below elaborate our recommendations for each of the four main interest groups.

7.4.2 Recommendations to civil society organizations

Those organizations wanting to contribute to poverty reduction and sustainable development need to recognize the need for a long-term approach and bottom-up planning. The implication is that civil society has to plan, in the first place, its own long-term improvement process.

This process starts with civil society formulating its own long-term objectives and developing its own short-term progress indicators to check whether improvements are being made (see also Appendix 7). An operational internal improvement process gives a starting point for taking the lead in monitoring and service rendering to the other interest groups in the outer cycle. Here, a number of issues deserve special attention.

First, civil society organizations need to contribute to a better training and knowledge infrastructure. They should come to a division of labour in which each organization focuses on a limited quantity of products in a finite number of major producer countries. These choices should be based, in the first place, on existing capacities within their own organization. Moreover, in-depth baseline studies on production chains are expected to provide information on existing gaps in quality, opportunities for smallholders, and available training capacity in specific chains in particular producer countries.

Second, civil society organizations could prepare for discussions with smallholders by collecting some of the baseline data required for planning. Moreover, when doing do, they should recognize that smallholders' perspectives differ from their own. Smallholders tend to perceive funders in a short-term role and will insist on getting immediate access to the maximum amount of money, both subsidy and credit, irrespective of their management capacity, creditworthiness and repayment capacity. Moreover, smallholders may have difficulty understanding and accepting the multiparty arrangement. Finally, it may be difficult for smallholders to communicate with the other parties in the arrangement and they may need several days and workshops to come to good communication on equal footing.

Third, civil society organizations should participate in workshops and follow-up meetings with potentially interested producer groups. Many conferences and workshops are organized on the issues discussed in this study. Smallholders are supposedly represented but seldom really participate. Even when an average producer from a low entry level group is present, the conditions for him or her to take active part are seldom met.

Fourth, civil society organizations need to follow up with producer groups. Obviously, training capacity and initial funding should be available to achieve poverty reduction. Civil society funders should have willingness, budget and capacity to follow through with smallholder groups that have demonstrated understanding and interest. It is almost unethical to initiate discussions on basic income issues with poor producers, to define together

opportunities and then to step out of the process without assuring continuation or without good arguments for letting the initiative die.

Fifth, civil society organizations can strengthen national reference groups in promising countries. Producers in a specific global chain and country are confronted with increasing quality requirements, which are sometimes difficult to understand and may even be contradictory. National reference groups could play an important role in this regard. This role is even more important for low entry level groups. Within their general mandate, national reference groups could create a smallholder agency specialized in opportunities specific for smallholders and in communication with smallholders. Such an agency in a particular national and ecological context could facilitate communication with global standards bodies and address major bottlenecks, such as group certification.

Sixth, civil society organizations could help to develop and strengthen a global network of national reference groups. As stated earlier, national reference groups could address generic issues, such as group certification. In so doing they could build up country-specific experiences to share with the global standards and certification bodies. Within global production chains, experiences could be exchanged on generic issues, such as nutrient and waste recycling. Based on such exchanges, the network could develop the generic part of curricula and databases, to be complemented by the national reference groups on country-specific issues. A strong global network could simplify the management task of civil society. Moreover, knowledge exchange networks also can play an important role in mainstreaming lessons from specific cases.

Seventh, civil society organizations could be more flexible in funding formats and more ready to implement initial simplification of procedures. The present funding formats make it unnecessarily difficult to achieve the objectives outlined in this book. The time horizon of most projects is too short to achieve durable and measurable results. Given the inherent ups and downs in management, the volatility of markets and the importance of strengthening the income position, it seems impossible to fix the desired outputs and outcomes in detail in advance for the whole project period. Instead short-term progress indicators should be agreed upon to check whether the improvement process is on track. Appendix 7 makes some suggestions in this regard. Quality management projects require more and more regular monitoring than is the present practice in most civil society funders. Perhaps most important here is an emphasis on transparent priority setting.

Finally, civil society organizations need to think harder about exit strategies. It seems unlikely that civil society organizations can deliver more than innovative pilots. Therefore, the longer term strategy of these organizations needs to include, from the beginning, ideas about where, when and what type of exit strategy is expected to be feasible.

7.4.3 Recommendations to standards and certification bodies

To make their standards more development-relevant, standards bodies should try to lower the threshold of their system, reducing their list of minimum requirements (especially zero tolerance standards). The focus should be on improvement indicators so that smallholder groups can more easily enter the system. They should not compromise the qualities for which they stand, but they should emphasize the dynamic of improvement. Standards bodies should be strict and transparent when requiring producer groups to demonstrate improvements. It should be clear where a producer group stands and in what rhythm improvements are to be realized.

For smallholder groups working towards compliance, there are a number of elements that standards bodies should consider including in their system. A baseline study, first, can provide clarity on the entrance level of the group. Also, a minimal number of zero tolerance standards should be incorporated with, at the management system level, an operational Plan-Do-Check-Act cycle which summarizes the plan of the producer group, including internal auditing procedures. At the thematic level, a list should be compiled including minimum wages and pledges of no discrimination (equal wages for equal work), no child labour and no application of harmful chemicals. There are various further elements on which standards and certification bodies should provide clarity:

- requirements for a certification body to be accredited, including the capacity to audit a management system including internal auditing;
- how a group invites an accredited certification body;
- if and how a group can switch and invite another certification body;
- how certification bodies interact if they audit different parts of the same chain;
- the pre-certification process (an accredited certification body should be prepared to contribute to pre-certification and make a provisional list of areas of non-compliance.

Where zero tolerance standards are not met, the certification body should provide a predefined preparatory programme and make suggestions for training).

Fourth, the group should be able to contact a national reference group which can provide expertise on specific themes. External expertise will be required, for example, to establish the feasibility of working towards compliance with standards. Before deciding to invest in certificates, the groups will want to compare the additional costs involved with the advantages.

Fifth, standards bodies should push groups to go through this process and base their decision making on the outcome of the process. If positive, a structural relation with the certification body is established and an invitation extended to the external auditor. This auditor ensures that external auditing usefully complements the internal auditing and communicates in such a way that the group understands and can translate comments into preventive measures. The costs of external auditing are reduced by increasing the internal auditing capacity and by reducing incidences of non-compliance.

7.4.4 Recommendations to buyers

Two of our pilot projects started with planning and implementation with one buyer: Woolworths in the vegetable project and Sangana in the coffee project. This worked relatively well, particularly because the buyers were eager to (be seen to) contribute to poverty reduction and sustainable development. In these cases, the buyer together with the other interest groups invited a consultant or civil society organization or funder to improve its supply chain. The buyer contributed to, say, a three-year plan with short-term progress indicators. The buyer demonstrated its commitment by providing funding, though contributing less than 50% of the required funds to avoid a too heavy dependency relation with the producer group. Still, such a significant contribution remains important enough for the buyer to be able to insist on efficiency and an adequate improvement rhythm. Buyers and funders need to avoid subsidizing recurrent costs, including certification. Instead, their combined subsidy should be focused on targeted training as a step in the process towards more autonomous management and interdependence.

7.4.5 Recommendations to smallholder groups

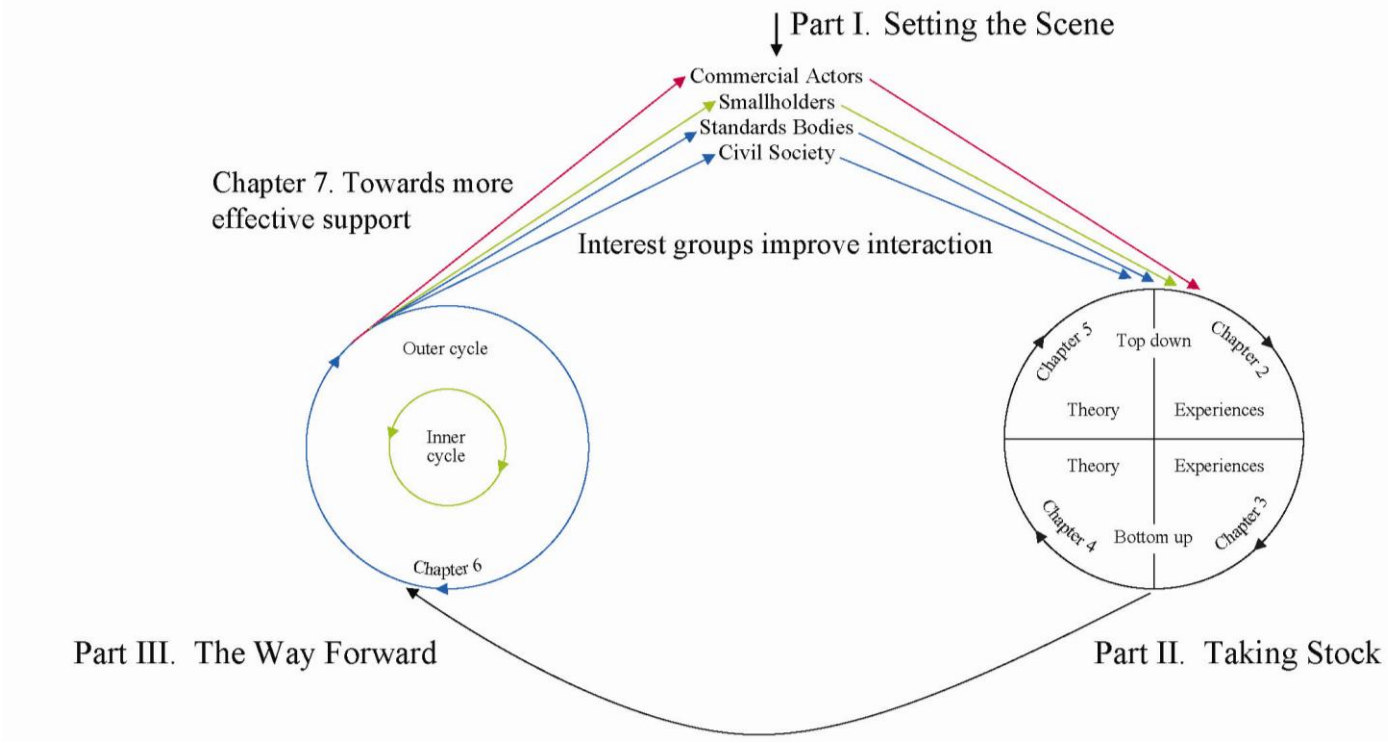
Smallholder groups should preferably first establish a long-term relationship with a reliable buyer that can provide up-to-date and detailed market information. They should work in groups of maximum 40 producer families with one model producer or promoter farmer as coordinator. It is crucial for groups to ensure adequate internal auditing, and for promoter farmers and board members to frequently meet in management meetings, which are well documented. Moreover, groups can effectively work with a short PDCA cycle (for example, a four-month frequency) to maintain an overview and clarity on problems and priority setting and be able to quickly ask for support when needed. Finally, smallholder groups need to ensure good interaction with standards and certification bodies.

7.5 Conclusion on the cyclical character of this book

We have now formulated recommendations to our four interest groups. But the question remains whether this study with its uniform definitions is in fact accessible to all of the different interest groups such that they will participate in the further discussions. This is particularly vital for the last and most important interest group, the smallholders. We have tried to provide an accessible account, using uniform definitions as listed in Appendix 1, to build a foundation on which interactions amongst the four interest groups can be improved. We now invite representatives of the different interest groups to comment on our book. We ask you the reader to go back to, for example, Chapter 1 and check whether this book does in fact provide a basis for improved interaction and communication. If not, please communicate where elaborations are needed. The authors are eager to receive comments and will use contributions to produce a follow-up simplified version of this study, possibly with a greater focus on a specific producer country and a specific product, with more pictures and less text.

More improvement cycles may be required to stimulate the intended interaction and interdependency. Therefore, we end this study with our own interactive improvement cycle, in the hope that this inspires readers to inform us where and how we can improve our work.

Figure 7.1: Improving interaction through the seven chapters of this book.



Appendix 1: Glossary

The following definitions were selected from ISO, HACCP and other sources, but simplified and adapted by the authors in order to be supportive of the interaction process between support organizations in the outer cycle and smallholder groups in the inner cycle.

Acceptable risk level. Also called the 'target risk level'. This is the level of a hazard or problem that presents an acceptably low risk to the customer. The acceptable risk level should be stated in the product description.

Accreditation. Documented recognition by an authoritative body that a certification body is competent to carry out specific tasks.

Accreditation guidelines. These are guidelines provided by standards bodies to certification bodies. For example, the organic accreditation criteria promote issues such as non-discrimination, independency and confidence.

Accredited certification body. An entity that has demonstrated its qualification to perform certification within a defined scope on behalf of a specified standards body.

Auditing. A systematic, independent and documented process for obtaining evidence and evaluating it objectively to determine the extent to which specific requirements are fulfilled. In large or multiple production units, auditing is performed by internal inspectors and external auditors in a complementary process. See also 'verification'.

Baseline survey. A baseline survey provides a quantified overview of the situation that is supposed to be the starting point of a process towards compliance, such that changes can be measured during the process.

Benchmarks. Points of reference from which measurements can be made.

Benchmarked standards systems. Formally defined equivalencies. For example, GlobalGAP defines its degree of equivalency with many other standards systems.

Benchmarking. Measuring performance against peers.

Bottom-up approaches. Relates to the mindset of decision makers. Their decisions are influenced by the implications for the producers at the bottom of the group, specifically the weakest 10% of the producers in the group. See also 'top-down approaches'.

Bulked produce. Produce so combined that parts cannot be traced back to an individual producer.

Carbon cycle. Relates to the exchange of carbon in various forms between atmosphere, terrestrial biosphere, soil and deeper geological deposits.

Carbon footprint. The amount of fossil carbon in gas emissions caused by an organization or production process.

Carbon neutral. No net emissions of greenhouse gases.

Centralization. In decision making, relates to a large producer group in which decisions are taken by a few persons without involving the larger group to any great extent. See also 'decentralization'. Arguments for centralization include short-term efficiency, faster decision making and lack of knowledge of persons implied in the decision.

Certificates. Official documents issued by a certification body declaring that production complies with specified requirements (standards).

Certification body. Implements a certification programme (including auditing) in a feasible way. It takes a decision on certification based on the results of audit findings.

Certification procedure. Protocol that spells out how a certification body gives written assurance that the quality of a product or production process or person has been assessed and fulfils the specified requirements (standards).

Certification programme. Defines the system operated by a certification body, including requirements, procedures and management for carrying out certification.

Certification scope. Defines the certification granted in terms of the product, the production process, the management system and the standards to be applied.

Chain of custody. An unbroken trail ensuring security of data, records and samples, including all steps between primary production and final consumption (including growing, handling, processing and retailing).

Civic-driven change. A change process driven by civil society.

Civil society. Persons and organizations playing a role in the perceived contradictions and imperfections of market and democracy. Excluded are the roles of commercial actors, publicly operating regulators and the privately operating standards bodies. Or: Experience demonstrates that in between these three parties civil society has its role to play.

Codex Alimentarius. Food quality standards developed by the Food and Agriculture Organization of the United Nations (FAO) and the World Health Organization (WHO).

Competence. Demonstrated ability to apply knowledge and skills.

Compliance. Fulfilment of a requirement. See also 'conformity'.

Conflict of interest. Situation where an individual's financial or personal interests conflict with the conduct of a fair and impartial audit or certification.

Conformity. Fulfilment of a requirement. See also 'compliance'.

Consumer: See ‘customer’.

Continual improvement. Recurrent activity that has the effect of increasing the ability of a producer (group) to fulfil specified requirements. The process of identifying opportunities and establishing objectives is a continual process.

Contracted production. Performed by producers in a centrally managed outgrower scheme.

Control (verb). To take all necessary actions to ensure and maintain compliance with standard(s).

Control (noun). The state wherein compliance with standards and standardized procedures is within acceptable levels.

Control measure. Action meant to reduce the risk of a hazard to an acceptable level. It refers to preventive and corrective actions.

Control point (CP). A step in a chain which has been identified as carrying a high risk of non-conformity with the quality objectives of the process.

Corrections. Actions to eliminate detected nonconformities. Examples of corrections are re-grading or re-drying of coffee.

Corrective actions. Actions taken to prevent recurrence of a non-conformity or problem. See also ‘preventive measures’, which are taken to prevent such occurrence.

Cradle to cradle. The remains of a disused product are reused fully. See also ‘zero waste’.

Critical control points (CCPs). Points, steps or procedures in the chain at which control can still be applied and the risk of problems occurring are reduced to an acceptable level.

Critical limits. Thresholds of risk beyond which acceptable risk turns into unacceptable risk.

Customer (client, or consumer). The party that orders, buys or receives a product. A customer can be internal or external to the production unit. In a cooperative management system, the members are customers of the services of the cooperative.

Decentralization. In decision making, refers to a large producer group in which the central management involves the group members in decision making. The more decentralization, the more need for a decision-making structure and management system. See also ‘centralization’. Arguments for more decentralization include motivating group members to produce quality and getting feedback in the checking phase on weaknesses in decision making as a step towards improvement and transparency.

Declaration of interest. A written statement of personal or commercial interest in the production to clarify an individual’s position.

Deming Wheel. Depicts the interrelated sequence of the Plan-Do-Check-Act cycle, which is a central element in management and the ISO 9000 standards.

Ecolabel. Indicates the environmental impact of the production process from which a labelled product originates.

Energy intensity. Relationship between energy use and energy value of the output for a production process or organization.

EurepGAP. Standards system developed by European supermarkets to reduce risks of contamination and to promote Good Agricultural Practices (GAP).

External auditor. An expert appointed by a certification body to perform an external audit.

External verification. A check by an accredited certification body of whether, for example, production or the management system meets the standards.

Fair Trade. A movement to help farmers (including smallholders) to gain better terms of trade or greater equity in trade. The movement includes standards bodies (FLO, WFTO), certification bodies (FLO-CERT and other accredited certifiers) and support organizations engaged in training, awareness raising and campaigning for improvements in trade relations.

Food safety. The assurance that food will not cause harm to the consumer. It implies that risks are reduced to acceptable levels. ISO 22000 is a food safety standards system which includes the HACCP priority-setting methodology.

Fossil fuels. Energy sources that began as fossilised life forms. Examples are coal, oil and gas. Burning of fossil fuels contributes to climate change. See also 'renewable energy'.

Free riders. Commercial parties in a chain that do not respect the level playing field as agreed by the majority of the commercial parties in the chain.

Generic approach. An approach open to all interested persons as opposed to standards-specific and buyer-specific approaches.

Greenhouse gas. Any gas that allows sunlight to enter the atmosphere but absorbs the heat reflected off the earth's surface. Included are water vapour, carbon dioxide, methane and nitrous oxide.

Group certification. Assurance given by a certification body in a written certificate that a producer group complies with standards (to be specified in the certification report). Compliance includes assurance that the producer group (i) is a legally registered entity that can establish contracts with buyers and certification bodies, (ii) has a quality management system including internal auditing, (iii) owns the certificate and shall not allow single group members to use it, and (iv) is a feasible multiple production unit, meaning that recurrent costs (including certification and auditing costs) can be covered by income from production, implying a minimum level of efficiency in terms of physical distance between sites, central processing, distribution and marketing.

HACCP (Hazard Analysis and Critical Control Points). A methodology to identify, evaluate and control hazards. Its original scope is food safety, but this can be broadened to other (social, environmental) quality objectives.

Hazard. An event or condition with the potential to have a negative impact on objectives, or to adversely affect quality as defined in the plan, or to jeopardize quality.

Improvement standards. Formalization of an improvement process as required by the customer. When a producer groups wants to improve, it requires a management system. For this reason most improvement standards systems include management system standards.

Interested parties. Those concerned with or affected by the performance of an organization. Interested parties in standards bodies include producers along the chain, certification bodies, civil society, consumers and governments.

Internal audit. A systematic and documented assessment or review of the implementation of the plan, carried out by persons belonging to the group.

Internal auditor. Expert appointed by a producer group to check whether reporting over a past period was correct and complete in relation to the agreed objectives and planning. The internal auditor reads the report in the review meeting.

ISO 65. Criteria for bodies operating certification of products and production processes according to static standards. It specifies requirements that a certification system must meet to be recognized as competent and reliable. It underlines the importance of producers understanding the standards to be checked by the certification body.

ISO 9001. Standards related to the management system of an organization or producer group. Its requirements are generic irrespective of the type of production. It requires a documented management system.

ISO 14000, 18000 and 22000. Methodologies that combine system standards including a priority setting methodology (such as HACCP in 22000) with thematic standards on, respectively, environment, safety and health.

ISO/IEC 17021. Standards systems that specify requirements for bodies providing auditing and certification of management systems. It guides the certification of management systems and improvement standards. It underlines the importance of producers understanding the standards, which should be checked by the certification body.

Level playing field. Implicit agreement amongst the majority of actors in a chain to maintain/improve quality and to identify and rein in free riders. Parties contributing to the maintenance of the level playing field might include civil society organizations in a watchdog role.

Management. Decision making and policy formulation on a process of change and planning to achieve those objectives. It thus comprises elements of policy, planning, implementation and operation, performance assessment, review, auditing and improvement.

Management systems. Systems that interrelate the different elements of management into a working PDCA cycle. The interrelation is such that checking leads to action and influences decisions on planning in the next round.

Management system standards. Formalization of procedures at the control points in the PDCA cycle to provide a basis for establishing progress indicators. An example is ISO 9001. Management system standards are meant to support producer groups to solve their management problems.

Minimum requirement. Non-compliance with a minimum requirement leads to immediate rejection, exclusion or de-certification, see also 'zero tolerance standard'.

Multi-certification. A 'one stop shop' in which the auditors of certification bodies accredited by various standards bodies cooperate. They organize together one audit visit such that all required data are collected, overlaps are avoided and contradictions resolved. They prepare different audit reports as required by the different standards bodies.

Multi-party arrangements. Agreements between two or more of the following parties: a producer group (seller), a processing company, a buyer, a certifier, a trainer and a funder of an improvement programme. It aims at clearer interaction and reduction of transaction costs.

Multiple production units. Production units with interrelated activities at different production sites, where problem listing, risk assessment and priority setting is done in the specific context of each site, leading to a site-specific plan and decentralization of management under the umbrella of the unit as a whole. The umbrella unit and the different sites are audited at least once a year. See also 'group certification'.

Non-compliance. An instance in which a particular requirement is not fulfilled.

Non-conformity. Non-compliance with a zero tolerance standard.

Organic. A production chain in which organic principles are applied. For example, farming at the start of the chain should be based on replenishing and maintaining long-term soil fertility by optimizing conditions for biological activity within the soil rather than through the application of synthetic chemicals.

Organic principles are defined by the global organic movement (IFOAM) and include health, ecology, fairness and care. Organic principles are elaborated by national governments in their Organic standards systems.

Outgrower system. A production system in which the management of a large central unit decides how and when contracted producers produce and deliver produce to the central unit.

Performance. Measurable results of the management of a planned change process.

Preparatory programmes. Formal description of basic conditions and activities that must be realized before entering into a regular PDCA cycle.

Preventive measures. Actions that eliminate the cause of a *potential* non-conformity and prevent its occurrence. See also 'corrective actions'.

Price differentials. Variable amounts added or deducted by the buyer, mostly expressed as a percentage of the regular market price. Reasons include a specific product quality, product origin or a label on a product based on certification according to a standards system. Price differentials can be high (>100%).

Price premiums. Fixed amounts paid by the buyer over the regular market price. FLO, for example, requires certified buyers to pay a premium to sellers (smallholder groups). Price premiums are mostly modest (<20%).

Product. The outcome of a production process. Categories include services (to internal and external customers), software (computer programs, dictionaries, manuals); hardware (coffee, cocoa beans, tea, nuts, engine mechanical parts) and processed materials (ground coffee, chocolate bars).

Product quality. The degree to which the customer requirements *inherent in a specific product* are fulfilled. See also 'production process quality'.

Production chain. The succession of steps between primary production and final consumption. Quality assurance of the final product requires that all production processes in a chain be certified.

Production process. A set of interrelated activities in a production chain transforming inputs into outputs. Output from one production process forms the input for the next production process.

Production process quality. The degree to which customer requirements inherent to a specific production process are fulfilled in every step of the production process.

Production site. A location of management activities for a given production unit. Multiple production sites have multiple locations with interrelated management activities.

Project. A unique process consisting of a set of coordinated and controlled activities with a start and finishing date, undertaken to achieve an objective.

Quality. The degree to which requirements specified by the customer are fulfilled.
The quality notion has expanded over time: from product quality to process quality. Quality embraces management services and compliance with third-party specifications. It is also associated with standardization and certification. Quality is thus integrated into the management strategy of an organization based on the commitment of the management and labour force to continually improve value for their customers, for the organization itself, and for society as a whole. See also 'thematic quality'.

Quality assurance. Part of management focused on assuring that quality requirements will be fulfilled and consistently adopted in a production chain. Examples are Good Agricultural Practices (GAP) and Hazard Analysis and Critical Control Point (HACCP) systems.

Quality differential. An addition or reduction in the price offered for a product related to a higher or lower quality.

Quality management (QM). Decision making in an improvement process, comprising elements of policy, planning, implementation and operation, performance assessment, review, auditing and improvement. It coordinates activities of producer groups to assure the quality of their bulked product. QM includes a customer focus, leadership and a system approach to continual improvement.

Quality management systems (QMS). A methodology that interrelates the different elements of QM into a working PDCA cycle such that checking leads to action and influences decisions on planning in the next round.

Quality management documentation. The procedures and forms required for QM and the external auditing thereof. It contributes to the communication of intents and provides objective evidence.

Quality management principles. Values assumed to lead to increased and consistent quality, such as a customer focus, decentralization in decision making, a bottom-up approach in the mindset of decision makers, involvement of interested parties at all levels in understanding leading to ownership, a systems approach to management and continuous improvement.

Quality plan. A document that specifies which procedures and associated resources shall be applied by whom and when in order to improve a specific production process. The document is agreed upon by the producer group and the certification body as a basis for the Plan-Do-Check-Act cycle. It is the document through which the producer group and the certifying body collaborate to define how to achieve compliance and how to document it. The plan commits the producer to a sequence of practices and procedures that are supposed to result in full implementation and compliance.

Quality policy. Document containing overall intentions and direction of the producer group towards achieving quality as formulated by management. The document relates to the legal status of the producer group and is used as the basis for regular planning.

Random sampling. Method of checking used when a normal risk distribution is expected. See also ‘risk-based sampling’.

Rating. Performance of an organization evaluated and reported in a standardized way.

Re-auditing. External audit of individual group members in addition to the internal audit to assess the effectiveness of the internal audit system of the group.

Record. Document containing evidence of how well activities are performed.

Reference groups. Groups established to contribute to improved quality by offering knowledge to increase problem-solving capacity, generally related to a specific chain. Reference groups can work at the provincial, national and global level. Their work includes maintaining an overview of problems in a specific production chain, assessing related risks and anticipating problem solving in high risk areas. They also support certification bodies in harmonization, adaptation and translation of standards and coordinate training and curriculum development.

Renewable energy. Sources of energy that do not release carbon dioxide, either because they are not carbon based (hydro, solar or wind) or because they grow back in a period not measured in millennia (such as biomass).

Risk. Likelihood (or probability) of an adverse event (problem or hazard) occurring. Risk is expressed as probability x severity (or impact) of an adverse event.

Risk assessment. Appraisal preferably done by comparing the likelihood of problems in a list. The list is based on a description of the production chain, including control points. The risk of each problem is quantified in a comparative way and the list is organized in order of magnitude.

Risk-based quality management. Applied when management capacity is limited in relation to the number of objectives and related problems to be addressed. The limited management capacity is focused on solving priority problems. Thus, management capacity is not diluted over too many problems. It introduces a stepwise approach in which low-risk problems are addressed in a later phase.

Risk-based sampling. Relates checking with the expected frequency of problems. It is done when known problems are expected to influence the normal probability distribution and when specific characteristics of production units can be linked to the known problems.

Sampling. Checks whereby the auditor decides to audit only part of the production units. It can be done on a judgemental (small number of production units) or statistical basis (large number of production units). Statistical sampling can be done at random (when a normal risk distribution is expected) or problem based (when specific characteristics of production units can be linked to problems). In all cases sampling procedures need to be made explicit.

Sanctions. Penalties imposed internally by the QM system or externally by the certification body. Both make use of a written policy. Sanctions can be imposed, for example, in cases of apparent unwillingness or unreliability of a producer (group) or non-compliance with a zero tolerance standard. Sanctions can include rejection of produce, exclusion and de-certification.

Scope. Defines the limits of an (intended) action; more specifically the limits of certification granted in terms of the product, the product types, the standards and certification programme(s) to be applied.

Smallholder. A producer whose scale of operation is too small to maintain a position in the market and for that reason has to operate in a group of comparable producers bulking their product such that their position in the market is strengthened.

Smallholder group. A cluster of producers aiming to sell bulked produce as a group. Has a more decentralized decision-making structure that allows members to decide on their own production within limits imposed by the group.

Social quality. Quality as referred to in the International Labour Organization (ILO) conventions and further elaborated by for example Social Accountability International.

Specification. Document stating requirements. It can relate to activities (e.g. procedure document, process specification and test specification), or products (e.g. product specification, performance specification).

Standardization. Listing of requirements meant to be part of a standards system. Standardization aims at better communication between consumer and producer about the suitability of a product (or about fitness for its purpose). It can include variety control, usability, compatibility, interchangeability, health, safety, protection of the environment, product protection, mutual understanding, economic performance and trade aspects.

Standards body. An entity with as its principal function, by virtue of its statutes, the management of a standards system.

Standards harmonization. Establishment of interchangeability standards for similar types of requirements on similar subjects. Harmonization can include cross-referencing, cutting out overlaps and identifying contradictions. Harmonization facilitates compliance with different standards systems at the same time.

Standards list. List of requirements established by consensus and approved by a recognized standards body. Different types of standards (possibly on the same list) can be distinguished: production standards (related to specific products or production processes); thematic standards (related to specific themes such as environment, economic, social, food safety and health); zero tolerance standards (or minimum requirements on which non-compliance leads to immediate action); improvement standards (set targets and progress indicators for an improvement process), management system standards, standards in learning processes (including requirements for passing an exam), and standards in terminology, symbols, packaging and labelling.

Standards system. Methodology to achieve optimal order in a given context. It provides guidelines and characteristics for products, production processes, learning processes, organizational systems or networking systems, such that producers can decide whether to work towards compliance and apply for certification. Standards systems are based on the consolidated results of science, technology and experience. They provide for common and repeated use and are approved by a recognized standards body managing the system.

Standards system management. (Continual) development of standards and the related communication with interested parties and development of corresponding quality assurance.

Supply chain. The linked relationships that bring goods and services to market. Produce moves, for example, from (primary) supplier (farm), to processor, to wholesaler, to retailer, to consumer. See also ‘production chain’.

Supply network. Interacting suppliers (farmers) supplying (bulked) produce to buyers.

System. A set of interrelated elements. A working PDCA cycle is a system because of the interrelation between plan, do, check and act. Management is a system when decision makers accept the implications of their decisions as reported and checked by auditors and act accordingly in the next round of decision making.

System certification. Assessment of whether the management system of a producer group meets the requirements of a PDCA cycle.

Systemic elements. In management to be included elements of the PDCA cycle. In this book special attention is given to auditing and group certification.

Target level. The acceptable risk level of a hazard in the final product.

Thematic quality. (As opposed to ‘management system standards’) includes product quality and production process quality. Production process quality includes environmental and social quality.

Tolerance. The level of non-compliance considered acceptable in a specific context.

Top-down approaches. A mindset of decision makers by which decisions are not influenced by implications for the producers at the bottom of the group, specifically the weakest 10% of the producers in the group. See also ‘bottom-up approaches’.

Traceability. Ability to trace the history of a product back to its origin. Products are traced in case of recalls or complaints.

Traceability audit. Recorded identification ensuring that a product can be traced back to the original suppliers.

Tracking. The capability to follow the path of a product through the chain. Products are tracked for logistical reasons.

Transaction costs. Expenses incurred in doing business. They are high when negotiating parties lack trust or have conflicts to resolve.

Validation. Obtainment of evidence that the elements of a plan are effective.

Verification. The application of methods, procedures, monitoring and tests in order to determine the extent of compliance or conformity to a standard. See also ‘auditing’ and ‘certification’.

Working language. The language in which an audit/inspection is carried out independently without translator.

Zero carbon. No net emissions of carbon dioxide.

Zero tolerance standard. A requirement for which non-compliance leads to immediate sanction (rejection, exclusion or de-certification).

Zero waste. Any remainders from a process are used as inputs for another process.

Appendix 2: Abbreviations

BRC: British Retail Council

BSCI: Business Social Compliance Initiative

BSI (British Standards Institution) specifies common management system requirements as a framework for integration of multiple standard systems

CAFE Practices: Coffee and Farmer Equity Practices, a global standard developed by Scientific Certification Services at the request of Starbucks

CAN: Conservation Agriculture Network. Member of ISEAL. The Rainforest Alliance is a CAN member

CCCC: Common Code for the Coffee Community, an effort to provide a baseline global standard for the coffee chain upon which other global standards can build

CCP: Critical Control Point

CI: Consumer International, representing consumers in global standard-setting

CSR: Corporate Social Responsibility, explicit intention to meet quality standards encompassing suppliers, subcontractors, licensees, alliances and anyone serving the company

CSN: Coffee Support Network, a fund for training smallholders in the coffee chain. CSN is managed by Solidaridad. Contributers are HIVOS, Douwe Egberts/Sarah Lee Foundation, Oxfam/Novib and the Doen Foundation

EAFCA: East Africa Coffee Association

ECF: European Coffee Federation

ETI (Ethical Trading Initiative), a global standards body with its main office in the United Kingdom

FAO: Food and Agriculture Organization of the United Nations, partner in the Codex Alimentarius

FLO: Fairtrade Labelling Organizations, a global standards body setting FLO (Fair Trade) standards mainly for food products. Member of ISEAL

FSC: Forest Stewardship Council, a standards body for forestry and timber production. Member of ISEAL

FTO: Fair Trade Original is a Dutch importer of Fairtrade products

GAP: Good Agricultural Practises

GFSI: Global Food Safety Initiative

GRI: Global Reporting Initiative

HACCP: Hazard Analysis and Critical Control Points is a methodology to prioritize problems on risk basis

HIVOS: Humanist Institute for Development Cooperation

IAF: International Accreditors Forum, a roundtable at which national accreditation bodies meet

ICO: International Coffee Organization

ICS: Internal Control System, developed by the organic movement, imposes internal control on zero tolerance standards with a sanction system for non-compliance

IFAT: International Federation for Alternative Trade, a global standards body setting Fairtrade standards (mainly handicrafts)

IFOAM: International Federation of Organic Agricultural Movements, develops organic principles, and serves as a model for organic standards systems and global accreditation criteria. Member of ISEAL

IISD: International Institute for Sustainable Development, established in Canada, is the legal entity underlying the SCAN project

ILO: International Labour Organization, develops ILO core conventions, which are considered to be the social quality objectives upon which more detailed social quality systems (such as SAI and Fairtrade) are built

IOAS: International Organic Accreditation Services, provides accreditation services to certification bodies

IPCC: Intergovernmental Party on Climate Change, assesses information relevant for understanding climate change

ISEAL: International Social and Environmental Accreditation and Labelling Alliance, an organization of standards and certification related entities including IFOAM, IOAS, FLO, FSC, MSC, SAN, SAI, UTZ Certified

ISO 62: Guides the certification of ISO 9001-based quality Management.

ISO 65: Sets out criteria for bodies operating certification of products (and production processes). It specifies requirements that a product certification system must meet to be recognized as competent and reliable

ISO 9001: Concerns the way in which a producer group manages its production processes. The quality of management affects the (quality of the) final product and for that reason should satisfy the customer's requirements. In ISO 9001, management requirements are supposed to be generic, no matter what the group produces. ISO 9001 requires documented quality management (not just a system of documents)

ISO 22000: Combines ISO 9001 and HACCP, which together form quality management, but its scope is limited to food safety

ISS: Institute of Social Studies in The Hague, part of Erasmus University Rotterdam

KCSN: Kenya Coffee Solidarity Network

KIOF: Kenya Institute for Organic Farming

KOAN: Kenya Organic Agriculture Network, a national organic platform providing information and reference services

MDG: Millennium Development Goal

MSC: Marine Stewardship Council, a standards body for fish. Member of ISEAL

NOSP: National Organic Standards Program (USA)

OECD: Organization for Economic Co-operation and Development, develops standards for multinational enterprises

OHSAS: Occupational Health and Safety

OPPAZ: Organic Producers and Processors of Zambia, a national platform providing information and reference services

NOP: National Organic Program (USA)

PDCA: Plan-Do-Check-Act cycle or Deming Wheel, a basic management tool

PPP: Planet, People and Profit

QM: Quality Management

SAI: Social Accountability International, a global standards body. Member of ISEAL

SAN: Sustainable Agriculture Network. Rainforest Alliance is a member

SCAN: Sustainable Commodity Assistance Network

SFTMS: Sustainable Fair Trade Management System, aims to standardize Fairtrade business practices

SMS: Sustainable Management Services, a training organization specialized in coffee and linked to Sangana-ECOM Agroindustrial Corp

TBT: Technical Barriers to Trade, an agreement relating to application of global standards avoiding discrimination

TCC: Tropical Commodity Coalition, a platform lobbying to create a level playing field in the Dutch market (previously the Coffee Coalition)

TOAN: Tanzania Organic Agriculture Network, a national organic platform providing information and reference services

TWIN: A UK importer of Fairtrade certified products

UNCTAD: United Nations Conference on Trade and Development

UNEP: United Nations Environment Programme

WFTO: World Fair Trade Organization, previously IFAT

WUR: Wageningen University and Research Centre

Appendix 3: Reference materials by keyword and interest group

Introduction

This list of reference materials includes working documents, articles, reports from workshops, slide presentations, photos and video clips. The list has a number of purposes:

- suggesting a thesaurus based on a set of keywords for a knowledge base. The keywords are based on the definitions in Appendix 1. All materials are recent (since the year 2000) and are referenced by keyword and date, represented in three digits. The first digit refers to the year, and the second and third digit to the month;
- making reference materials accessible for search machines;
- creating access to the building blocks on which the conclusions and recommendations in this book are based;
- providing illustrations for those wanting to elaborate on issues in this book;
- demonstrating differences between keywords attributed by the authors of this study to documents and some of the original titles. In such cases the titles are added after the keywords. By making such differences explicit, the authors hope to contribute to harmonization of definitions and languages used by the four interest groups and to identify materials on the same issue originating from different interest groups.

The list of referenced materials is not entirely up to date, specifically on the standards lists, which standards bodies regularly revise and publish on their websites. For updates refer to the Internet. In cases where organizations or standards systems changed their name, only the present name is used in the reference list. Maintaining an updated database is useful, but requires a continual and structural effort, which might be a task for national reference groups in producer countries. They should feel free to improve this model.

The materials are grouped in four directories according to the four interest groups addressed in this study. Among the reference materials are sensitive documents, which the authors tried to integrate in a spirit of improvement. Readers are requested to approach them in the same constructive manner.

Section 1 in the reference list pertains to the commercial actors in the chain (buyers, traders, processors, wholesalers, retailers and supermarkets). Also included are buyer-specific trainers. The emphasis is on their supply chain responsibility. Other keywords are auction, contracts, CSR, fairness, hybrid relations, insurance, investment, level playing field, lifecycle analysis, markets, multiparty arrangements, opportunities, price building and price-quality differentiation.

Section 2 pertains to suppliers, specifically smallholders in their country-specific context. These materials are broken down into three categories: the coffee chain (2.1), the vegetable chains (2.2) and smallholder-specific opportunities (compost, energy, organic, recycling) (2.3). The focus is on Kenya (KE) and South Africa (SA), on smallholder perceptions and on the bottom-up approach which is leading in the study. Other keywords are baseline study, good agricultural practices (including biogas, compost, crop rotation, energy efficiency, mulching and waste recycling), income stabilization, progress indicators, promoter farmers, reference group and supply forms.

Section 3 lists references on quality management professionals, including standards and certification bodies, accreditation councils and standards-specific trainers. Both types of standards are included: management system standards, which are mostly based on ISO and the PDCA cycle and include the HACCP methodology and group certification, and thematic

standards with their focus on product or process qualities. Many thematic standards systems include some system standards (for example those related to group certification), but are still indicated here as thematic standards. Other keywords are assured compliance, auditing, benchmarking, checklists, equivalence, food safety, labelling, multi-certification, multi-site certification, rating, record keeping, self-assessment, tolerance, traceability, and transparency. This section of the reference list is broken down into five parts: (3.1) general; (3.2) standards systems such as ISO plus auditing and certification; (3.3) Fair Trade standards (thematic), including those of FLO in Bonn and FLO-CERT; (3.4) Organic and energy standards (thematic) including the EU and US Organic standards systems; (3.5) other standards, such as CAFE Practices, Global GAP (previously GlobalGAP), UTZ Certified; BRC, CCCC, FSC, ILO, NESPRESSO, OECD, OHSAS, RA, SAI, and SaraLee.

Section 4 lists civil society-related references, including those on lobbyists, generic trainers, funders and researchers. Excluded are buyer- and standards-specific trainers. The focus is on generic quality management training along the supply chain. Other keywords are capacity building, civic-driven change, clustering, continual improvement, diversification, entry level, gender, good agricultural practices, inclusive improvement, knowledge development and sharing, logical frameworks, MDGs (Millennium Development Goals), networking, poverty reduction, problem solving, reference groups and risk.

Reference materials per interest group in four directories

1. Commercial actors and their supply chain responsibility
- AHOLD coffee Utz and Perla presentation. S. Hertzberger 312.
- AHOLD Sustainability Report 2004 508.
- Auction reports coffee KE. Sangana 803 and 804.
- Barometer for Certified Coffee Dutch market 2006. TCC 705.
- Buyers of coffee KE 2007-08. 807.
- Buyers Suppliers relation in tropical commodities. C.van Beuningen (based on J. Bijman) 705.
- Chain coordination in Agrifood. Full title: Coordination and motivation in quality-oriented agrifood chains; the role of producer organizations. J.Bijman WUR 610.
- Chain description coffee. B. Slob SOMO 511.
- Chain description coffee KE. Workshop report 607.
- Chain description vegetables SA. Workshop report 711.
- Chain Responsibility Framework. Dutch CSR Platform 811.
- Chain workshop “Value UP”. OxfamNovib and others. Amsterdam 902.
- Coffee contracts in Sustainable Trade. P.H.May and others. IISD 405.
- Coffee crisis: business solutions to rural poverty. Technoserve 312.
- Coffee crisis: business solutions. P.Stewart Technoserve 410.
- Coffee crisis: possible solutions. Max Havelaar hardcopy 111.
- Coffee in Asia Africa organic markets. F.J. Koekoek 411.
- Coffee in the organic EU market. F.J. Koekoek 411.
- Coffee in the organic Latin American market. J. Vieto 411.
- Coffee in the organic US market. J. Vieto 411.
- Coffee Investment model in coffee. Full title: A Model International Investment Agreement for the Promotion of Sustainable Development. K.von Moltke IISD 411.
- Coffee smallholder production economics KE. KOAN 804.

- Coffee Specialty Conference US 402.
- Coffee trade ECOM analysis. S.Garnett presentation 801.
- Coffee trade ECOM review 2007. S.Garnett 801.
- Coffee trade update summary. ECOM 802.
- Coffee contracts in sustainable trade. P. May and others IISD 405.
- Corporate Sustainability in Context. 811.
- CSR guidelines Multinationals OECD 2000. 410.
- CSR in koffie. C.v.d.Wees Hivos presentation 711.
- CSR: making it work. S.Verkaart and others. 703.
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- Export of organic products from Africa. Tendencies. P.Lustig AgroEco 610.
- Fairness in Coffee Production. Full title: Is Fair Trade in Coffee Production Fair and Useful? Evidence from CR and GT and Implications for Policy. C.Berndt San Jose University 706.
- Fairness in trading between supermarkets and their supply chains. A.Tallontire and B.Vorley hard copy 509.
- Hybrid relations and Multiparty arrangements. C.van Beuningen based on J.Bijman 705.
- Level playing field and coffee barometer. S.Panhuysen TCC 609.
- Life cycle analysis of beans imported from KE by UK supermarkets. A.Jones IIED, DFID, NRI 610.
- Market access, Sustainable Management Standards and Technical Equivalence. T.Rotherham IISD hardcopy 206.
- Market and Rights approach. Hivos C.v.d.Wees slides and text 510.
- Market for Fair Trade in 25 EU countries in 2005. J.M.Krier 610.
- Markets work for the Poor. An Objective and an Approach for Governments and Developing Agencies. D.Ferrand and others 407.
- MoU between 6 partners on Continual Improvement 808.
- Multiparty arrangement in coffee 703.
- Neumann Partnership for Sustainability. M. Opitz. 607.
- Opportunities for smallholders in the beverage sector. M. Pfitzer andR.Krishnaswamy. Harvard College 2007.
- Price building in the organic Coffee Chain. J.Vieto 412.
- Price Insurance: Rural poor can benefit. Worldbank 210.
- Price study coffee chain. RIAS 208.
- Pricing coffee by FLO. Full title: Fair Trade pricing. Text and slides by N.Suma. TWIN Trading 412.
- Sangana Commodities presentation KE. J.Nganga 612.
- SaraLee DE launches an ethical coffee brand in the UK. 510.
- SaraLee Sustainability report 810.
- SaraLee TCC gespreksverslag 811.
- SCAN (Sustainable Commodity Assistance Network) concept note 803.
- SCAN (Sustainable Commodity Assistance Network) profile 901.
- TCC brief aan SaraLee 203.
- TCC brief aan Supermarkten 405.
- TCC improving support structures of smallholder groups. 905
- TCC plan 2009 901.
- TCC Vision document 810.
- Trade obstacles organic products. Kommerskollegium SE 306.
- Trading Practises for sustainable Coffee. J. Potts IISD 703.

- Tropical Commodities Initiative. Full title: The Global initiative on Commodities. J.Potts and others. IISD 904.
- Vegetables and fruits chains: statistics, Corporate structures and networks. EU 504.
- Vegetables organic export tendencies slides. AgroEco P.Lustig 610.
- Woolworths Hivos cooperation 605.
- Woolworths organic policy 512.
- Woolworths organic product lines presentation. W.Conradi 603.

2. Suppliers, specifically smallholders in Kenya (KE) and South Africa (SA)

2.1 Coffee
- Baseline study coffee project Nyeri KE. J.Nganga 608.
- Baseline study model Kihuura UG 901.
- Chain analysis Coffee KE. J.Kang'ethe KOAN 904
- Chain description coffee Nyeri 808.
- Chain description coffee Nyeri Workshop 607.
- Coffee cupping at Sangana KE. Photo 705.
- Coffee cupping at Socfinaf KE. Photo 609.
- Coffee drying at Githiru KE. Photo 609.
- Coffee intake at Giakanja KE. Photo 812.
- Coffee Nyeri project plan 2007. 612.
- Coffee Organic smallholder Economics KE. J.Kang'ethe KOAN 804.
- Coffee production trends in 11 Nyeri wetmills. E.Njeru 812.
- Coffee project Nyeri timeline 608-901. C.v.Beuningen 903
- Coffee variety Ruiru 11. Photo 702.
- Coffee Workshop KE. Report 511.
- Coffee Workshop QM Presentation KE. D.J.Vos 603.
- Giakanja Review 904.
- Giakanja Review and Plan 812.
- Githiru CAFE Practises reports 812.
- Githiru list with trees per farmer 812.
- Githiru plan 2009 812.
- Githiru review 2008 904.
- Income and environmental stabilization in KE coffee FCS. G.Salvador FIBL 808.
- Income Stabilization Activities in Coffee. FCS Nyeri 808.
- Management progress indicators in Nyeri FCS 808.
- Promoter Farmer checklist KE. C.Nzioka 805.
- Promoter Farmer position KE. C.van Beuningen 704.
- Promoter Farmer training in ISO 9000 photo 707.
- Promoter Framers Thiriku 704.
- Promoter Farmers training SMS photo 707.
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Appendix 5: Report of a management training workshop for coffee-producing societies

19 and 20 August 2009, Green Hills Hotel, Nyeri, Kenya

Workshop Day 1, 19 August 2009

09.15 hours: The workshop started with a song. Then the 70 participants introduced themselves and the programme was introduced by Charles Nzioka (SMS).

Review of project achievements: Two focal points

1. *Quality and quantity of coffee: Was there an increase?* Charles Nzioka (SMS) presented figures to the plenary demonstrating improvement. There was consensus on the quantitative achievements.

2. *Decision making and management: Was there improvement?* Strength in decision making relates to the quality and quantity objectives above. So there has been strength in decision making. But which decisions contributed to the achievements in the first place and who made these decisions? Which decisions were made within the four cooperative societies and which decisions were made by external support structures? To get answers to these questions we work in subgroups.

The first two questions are discussed in four subgroups organized at random. The subgroups list decisions that contributed to achieving better quality and quantity and indicate who initiated the decision-making processes: the society, HIVOS, Sangana or SMS.

During the next plenary session the answers of the subgroups were discussed while integrating them into a spreadsheet projected on a screen. This resulted in 27 decisions in column 1 and a mixed picture of decision makers.

10.45 hours: Focus on the decision-making processes.

George Watene introduced the Plan-Do-Check-Act (PDCA) cycle. He translated the abstract PDCA theory to the daily practice of the four societies, making use of the decisions listed on the screen. Were decisions transparent and easy to check? Were decisions strong and effective? Or were decisions unclear, ineffective and not leading to implementation (‘do’). Take into consideration that a decision can be weak, for several reasons:

- overestimation of implementation capacity (Did the decision maker look at the capacity of the person supposed to implement the decision?);
- overestimation of capacity to check the implementation (There will be always weaknesses in all decision making. And weaknesses need to be corrected. So decision making without checks is weak.);
- overestimation of available resources.

He gave special attention to the checking phase (auditing). We should always check whether our decisions in the planning phase were strong.

The next question was discussed in the same subgroups:

3. *Indicate in the list which decisions were strong and which were weak.*

During the next plenary session the answers of the subgroups were discussed and integrated in the spreadsheet on the screen.

12.45 hours: Lunch.

14.00 hours: Cooperative law and bylaws.

Mrs Mumbi Wachira, Cooperative Officer, Nyeri, realized that the cooperative act with all its sections and rules is too broad and complicated to explain to the board members of the societies. So she selected for this training session the most important articles for good management. During her presentation it became clear that a society cannot have two management systems. A project should not set up a separate management system. Management can and should be trained within the structure of the cooperative act. This appeared possible, although a few confusing wordings need to be clarified.

Below a few articles and rules are selected and summarized out of Mrs Mumbi's selection, on which discussion arose:

- Sec 24a: Each society has a list of approved members

Discussion. Some farmers tend to bring their coffee to the wet mill paying the best price irrespective of membership; and the wet mill managers seem to accept coffee from outsiders. This is one of the reasons why membership lists are not always up to date.

- Sec 4iii: Economic participation of members

Discussion. Inactive members not bringing coffee to the wet mill cannot be members and should not have voting rights. However, sanctions on non-conformities and termination of membership need to be regulated in the bylaws, which is not yet always done in an adequate way.

- Sec 4v: Each society should have a training programme

Discussion. This implies the need for a layer of promoter farmers in the organizational structure and allocation of a regular percentage of the budget to training, to be included in the next three-year plan.

- Sec 7: Each society should be registered

Discussion. The status of registration is not always clear. Keep in mind that providing credit to a non-registered society and trading with a non-registered society is unnecessarily risky and expensive.

- Sec 27.4c: Reports to be brought to the meetings should be audited

Discussion. Apparently reporting has a check function which only works if the report is correct and complete. It is effective to create one management system in which rules are applied to all documentation. Also external funders have the same requirement.

- Sec 27.ivf: External auditors should be appointed by the AGM

Discussion. Again in one management system the same rules should apply to all auditing.

- Sec 28iiia: The committee of elected board members is the governing body

Discussion. A governing body is not supposed to manage. It is supposed to hire a manager to implement the plan and budget as approved by the annual general meeting (AGM) and to be checked by the board. So it is confusing that in the further text the word 'management' is used for the governing board. This is important, because in the daily practice of the four societies there is not only confusion in wording but also in roles. Some board members are playing management roles and lack a self-correcting capacity.

- Sec 25: Societies keep accounts in accordance with international accounting standards

Discussion. International standards require the society to demonstrate that expenditures are in line with the agreed and stated objectives in the plan. Compliance can be easily achieved by adding an expenditure column and a justification column in the budget. During implementation the expenditures are filled in and in case of differences between planned and actual the justification column is also filled in. External funders have the same requirement.

- Rule 10: Amended bylaws to be approved by the AGM and signed by the Commissioner.
- Rule 15: Display of audited accounts (and reports) two weeks before meeting.

Discussion. Reports should be available in a timely manner to allow strong decision making. Again it is effective to create one management system with the same rules for all accounting and auditing.

Conclusion in plenary
Management training fits in the cooperative law, in the requirements of international standards and in the requirements of external funders. Integration will lead to simplification and transparency and facilitate work towards compliance with the different regulations and standards.

16.00 hours: Decision-making structures

Coen van Beuningen (HIVOS) summarized the discussion of the first day. He indicated the progress in building the spreadsheet together. He thanked George Watene for translating the PDCA cycle to the context of coffee-producing societies. He thanked Mumbi Wachira for making the cooperative act more accessible by her summarizing presentation and discussion. Both presentations and the spreadsheet will provide the basis for tomorrow on the question of whether decisions should be made in a more centralized or more decentralized way.

He apologized for delay in the time schedule and the few shortcuts made on the announced workshop programme.

Workshop Day 2, 20 August 2009

8.30 hours: Centralization and decentralization in decision making.

Coen van Beuningen introduced the words ‘centralized’ and ‘decentralized’ as unrealistic extremes:

- On one hand, you can have a dictatorial chairperson/manager making all decisions on the production on 2,000 farms and on the marketing of the bulked coffee, which already implies extremely difficult communication processes.
- On the other hand, you can have 2,000 farmers making decisions on the coffee production on their farm, each looking for a buyer and negotiating a price, which is extremely ineffective.

In practice, we have seen in the past two years that farmers, managers, board members and the supporting partners (HIVOS, Sangana and SMS) move back and forth between the extremes.

Three examples:

- Initially decision making on pruning was more decentralized. Each of the 2,000 farmers decided in their own way whether and how to prune. However, the 2,000 farmers soon realized that more centralization in pruning decisions would lead to better quality coffee.

- Initially marketing decisions were more centralized. Information and knowledge at farmer level were lacking. The manager was trusted (without adequate check) and authorized to decide on the marketing of the coffee produced by the 2,000 farmers. But when knowledge increased questions arose, checking increased and decision making became more decentralized.

- HIVOS and Sangana introduced the position of internal auditor, promoter farmers and the four-monthly review meetings. These were centralized decisions related to the structure of the societies, confirmed afterwards by the AGM. But initially understanding of the implications was lacking. Now after two years’ experience and before a next three-year plan the societies are in a better position to decide whether to formally integrate these positions into their organization and bylaws. Approval of bylaws is done by the members at the AGM. The members now have better understanding based on experience, which means more decentralized decision making.

Centralization allows faster decision making, less documentation and reduced transaction costs, but it also requires more trust, because checking is more difficult. If trust in the central person is lacking, the members may want to decentralize decision making. But decentralization requires more documentation and structures. Decentralization leads to more transparency, specifically if the Plan-Do-Check-Act cycle works adequately.

The chairperson of Rumukia explained his position in the decision making processes. He felt that decision making should not be centralized, not in marketing decisions and not by a chairperson of a society. If a decision needs to be made, he brings it in the board meetings, even if there is time pressure. And the board tries to be clear in delegating the decisions related to execution of the plan to the manager of the society.

Participants also introduce the concept of ‘guided democracy’ as more centralized decision making. It supposes trust in the guides. But when we look at the increasing complexities in the coffee production chain, ‘trusted guides’ may again have a decentralizing

role when delegating and finding skilled persons in different disciplines to help in addressing weaknesses.

After these deliberations the next questions for the group discussions came on screen:
4. *Which decision-making processes at the start of the project were more centralized and which were more decentralized?*
5. *Now after two years' experience in the project and starting to plan a next three-year project, indicate whether decisions should be more centralized or decentralized in future.*

During the next plenary session the answers of the subgroups were integrated into the spreadsheet on the screen.

12.45 hours: Strengths and weaknesses in the first two years of the project.

Coen van Beuningen briefly introduced the session. When we start planning a next three-year period, it is good to have an overview of the decisions of the past two years. We should maintain the strengths and address the weaknesses. Regular weaknesses are lack of information, knowledge and skills. Training can be a solution. 'Trainees deciding that a training should take place' is a decentralized decision-making process. 'Two trainers deciding on the content of a training' is a centralized decision-making process. Both processes happened for the present management training. For the preparation of the content it was good that SMS and HIVOS worked together. The two organizations have different backgrounds and corrected each other during the process of preparing for this workshop. During this training the centralized process became a two-way process between trainees and trainer. Transparency, this report and follow-up, are crucial for the effectiveness of the training.

So keep in mind that training does not automatically solve weaknesses. It requires efforts from both sides. When looking at the spreadsheet also consider additional weaknesses and solutions.

Two examples were provided:

- Allowing an external person or organization to make decisions for a society in a centralized way may be weak, unless the person is transparent and makes use of the available knowledge and skills. Find out what the motivation of the external person is. Does the person just want to sell their own product? Try the external supporter on pilot basis.
- Making the society dependent on external resources is weak. Try to plan yourself and reduce dependency

In the next session the subgroups were organized per society, this time looking specifically at weaknesses, priorities and solutions.

6. *List weaknesses, starting from the weaknesses in the spreadsheet and possibly adding more.*
7. *Set a priority order for addressing the weaknesses. Relate the priority setting to quality and quantity of coffee.*
8. *Indicate solutions for each of the weaknesses.*

15.00 hours: Reporting by the four societies.

In the next plenary session the reports of the societies were integrated into the spreadsheet on the screen. Decisions 28 to 41 were added to the list. Each of the societies listed about nine weak decision-making areas in priority order and suggested solutions to each weakness. The large variation suggests that the societies will differ in their coffee quality and quantity objectives in their upcoming three-year plans. However, the societies expressed a wish for continued management support. Management support can be more uniform, allowing for comparisons amongst the four societies and for them to learn from one another. Time for further discussion was lacking. But it was agreed that each society would start the plan for the next three-year period. It is recommended to organize the next training when the societies finish their first drafts.

16.15 hours: Closing

George Watene congratulated the participants. You all have become good managers, because it was possible to discuss together the weaknesses in the decision making and in the organizational structures of the four societies. In full transparency we discussed how to prioritize and address these weaknesses and continually improve.

Charles Nzioka asked the participants whether they had experienced any shortcomings or problems during the workshop. The participants indicated that it was a useful training, maybe a bit too short. No other problems were reported.

The workshop ended with prayers.

D5: QUALITY OF DECISION MAKING, CENTRALIZATION?, PRIORITIZE WEAKNESSES AND SOLUTIONS. BASIS FOR A NEXT PLANNING PROCESS

	41 DECISIONS	TAKEN BY	CENTRAL?	FUTURE?	STRENGTH?	PRIORITY	SOLVE WEAKNESSES, OBSERVATIONS
1	APPROACH FUNDER FOR PROJECT	SOCIETY	CENTR	CENTR	STRONG		1 PERSON CAN INITIATE BUT THEN INVOLVES.BOARD
2	ACCEPT RELATIONS HIVOS SANGANA	SOCIETY	CENTR	CENTR	STRONG		BOARD NEGOTIATES AND THEN GOES TO AGM
3	ACCEPT THE PROJECT BY THE AGM	SOCIETY	DECENTR	DECENTR	STRONG		MEMBERS LACK UNDERSTANDING
4	COFFEE QUALITY IMPROVEMENT	SANGANA HIVOS	CENTR	CENTR	STRONG		INCLUDE BOARDS AND PF IN ELABORATION OF PLAN
5	GAP AT (illiterate) FARMER LEVEL	SANGANA HIVOS	CENTR	CENTR	WEAK	1, 3, 4	DEMONSTRATION PICTORIALS PHOTOS
6	INTRODUCE PF GROUPS 50 OF FARMS	SANGANA HIVOS	CENTR		STRONG		SET MINIMUM REQUIREMENTS AND INCLUDE IN BYLAWS
		SOCIETY		DECENTR	WEAK	4	INCORPORATE IN BUDGET. AND RELATE NUMBER OF PF TO BUDGET; IDENTIFY WEAK PF
7	REVIEW MEETINGS	SANGANA HIVOS	CENTR	DECENTR	STRONG		INCLUDE IN STRUCTURE OF OTHER MEETINGS
8	TOOLS FOR PROMOTER FARMERS	SMS	CENTR	DECENTR	STRONG		PF DECIDE ON PACKAGE WITHIN BUDGET
9	PROVIDE FARM CHEMICAL INPUTS	SOCIETY	DECENTR	DECENTR	?	2, 8, 2	REPLACE CHEMICALS WITH COMPOST, WASTE
10		PF			WEAK		SOCIETY TO MANAGE REVOLVING CREDIT FUND
11	IMPROVE PROCESSING	SMS	CENTR		?		AGM DELEGATES PLANNING TO WETMILL MANAGER
		WETMILL MAN.		DECENTR	WEAK	7	NEW MACHINE IN BUDGET WETMILL. AGM DECIDES
12	TRAINING WETMILL STAFF	SANGANA HIVOS	CENTR	(a)	?	2	STAFF ASKS FOR TRAINING IN PROCESSING
13	FORMATION OF QT INCLUDING FARMER	SANGANA HIVOS	CENTR		WEAK		DISCUSS ORGANIZATIONAL STRUCTURE
	representatives	SOCIETY		DECENTR	WEAK	5, 5, 7	CONSIDER POSITION FARMER REP. IN QT
14	SOCIETY BOARD FACILITATES QT	SOCIETY	CENTR	DECENTR	WEAK	6, 7	REMOVE FARMER REPRESENTATIVES FROM QT
	which included farmers representative	MEMBERS	DECENTR	DECENTR	WEAK		THEN QT EQUALS BOARD + MANAGER
15	ISSUING COMPUTERS SPREADSHEETS	SANGANA HIVOS	CENTR	CENTR	STRONG		UNDERSTANDING WAS LACKING
16	IMPROVE COMMUNICATION	SANGANA HIVOS	CENTR	DECENTR	STRONG		SOCIETIES SLOW IN IMPLEMENTATION
17	IDENTIFY ACTIVE NON-ACTIVE FARMERS	SOCIETY	CENTR	DECENTR	STRONG		UPDATE THE BYLAWS
18	CONSTRUCTION OF DRYING TABLES	SANGANA HIVOS	CENTR	DECENTR	STRONG		WETMILL MANAGERS COME UP WITH PLAN
19	ISSUING MOISTURE METERS	SANGANA HIVOS	CENTR		STRONG		SOCIETIES ANXIOUS TO TAKE RESPONSIBILITY
20	INTERNAL AUDITOR	HIVOS			WEAK	2	LACK OF CLARITY; IDENTIFY SUITABLE PERSON
21	TRAINING INTERNAL AUDITOR	SMS	CENTR	CENTR	WEAK	3	ON MANAGEMENT AND ORGANIZATION
22	TRAINING PROMOTER FARMERS	SANGANA HIVOS	CENTR	(a)	STRONG		TRAINING INADEQUATE
23	TRAINING BOARD AND MANAGER	SOCIETY		(a)	STRONG		BOARDS ASK FOR MANAGEMENT TRAINING
24	ATTENDANCE TO TRAININGS (POOR)	MEMBERS	DECENTR	DECENTR	WEAK	1, 5	DECENTRALIZE DECISION MAKING, INCLUDE IN BYLAWS
25	CERTIFICATION CAFÉ PRACTISES	SANGANA HIVOS	CENTR	CENTR	WEAK	9, 1	TRAINING MEMBERS, COMPARE SYSTEMS
26	CERTIFICATION FAIR TRADE		CENTR	DECENTR	STRONG		BEST CERTIFICATION?
27	STOP WITH CAFÉ PRACTISES RUMUKIA	SOCIETY			STRONG		DOUBLE CERTIFICATION IS TOO COSTLY
28	CONTROL SOCIETY POLITICS	SOCIETY			?	9	DECENTRALIZING DECISION MAKING
29	TRANSPARENCY ACCOUNTABILITY	SOCIETY	DECENTR	DECENTR	?	1	TRAINING FARMERS IN CHERRY DELIVERY
30	CHOOSING A GOOD MILLER	SOCIETY		CENTR	?	7	INCLUDE IN AGREEMENT
31	CHOOSING A GOOD MARKETER	SOCIETY	CENTR	CENTR	?	8	INCLUDE IN AGREEMENT
32	INCENTIVES FOR PF AND FARMERS	MEMBERS		DECENTR	WEAK	3, 9, 8	MEMBERS SHOULD COMPENSATE PF
		SOCIETY		CENTR	WEAK		REWARDS FOR BEST PF AND FARMER IN BUDGET
33	POWER SUPPLY	SOCIETY		DECENTR	WEAK	4	GENERATOR IN BUDGET
34	WATER SUPPLY TO COFFEE TREES	MEMBERS		DECENTR	WEAK	5	BETTER MULCHING, INTERPLANTING
35	LABOR AVAILABILITY FARM LEVEL (LOW)	MEMBERS		DECENTR	WEAK	6	SAVING FOR THE NEXT SEASON
36	CHERRY FROM OTHER WETMILLS	PROMOTERS			WEAK	8	NEW MEMBERS TO BE APPROVED, COMPLETE LIST
37	CASH INCOME (LOW)	MEMBERS			WEAK	2	DECREASE CHEMICALS INCREASE COMPOSTING
38	COFFEE DISEASES (FREQUENT)	MEMBERS			WEAK	3	TRAINING GAP
39	WATER QUALITY (DIRTY)	SOCIETY			WEAK	4	INVEST IN BOREHOLES, WATER HARVESTING
40	CONTINUATION OF PROJECT	SOCIETY			WEAK		NEW PROJECT NOT READY 4 MONTHS BEFORE START
41	COFFEE SECTOR POLITICS	SOCIETY			WEAK	6	DECENTRALIZE DECISION MAKING IN THE SECTOR

a: decisions on training can come from support structures when they receive new relevant information, or from the Societies feeling that a knowledge gap has to be filled.

PF PROMOTER FARMERS; QT QUALITY TEAM; GAP GOOD AGRICULTURAL PRACTISES; ? MEANS DIFFERENT OPINIONS

Appendix 6: Logical frameworks of organizations in the outer cycle, an invitation for discussion

organization	impact	effect	activity - outcomes
Commercial Actor	turn over and market share increased	supply meets demand	providing info on qualities and related prices
TCC coalition advocacy	level playing field created continuous improvement	TCC accepted in its broker role all interested organizations support TCC policies and plans of commercial actors influenced TCC perceived as convenient lobby structure Civil Society members active in TCC meetings	exchange information notify overlaps of member activities prepare regular meetings with commercial actors increase consumption of certified produce
FLO Standards Body	smallholders empowered trading is fair	Demand for Fair Trade label increases	Develop Standards system improve consumer producer communication
ISEAL alliance Standards design	qualities improved	credibility of standards increased turn over of certified produce increased	develop Credibility tools networking and systematizing learning coordinate and integrate standards systems reduce certification and transaction costs
CSN network training	income smallholders improved sustainable development in chains improved living conditions on plantations	compliance to standards increased turn over of certified produce	address gaps including Quality Management enable and train smallholders to increase income link smallholders to commercial actors
IISD-SCAN reference groups network	qualities improved	structure for reference groups accepted access to expertise created harmonization of QM in standards systems	assess needs per chain and country train generic Quality Management networking
Hivos-SP funder knowledge exchange funder	poverty reduced sustainable development smallholders solve their problems	smallholders increase market share smallholders have rights over resources turn over of certified produce increased biodiverse resource base strengthened increased energy efficiency in production autonomous management multiparty agreements function	increase consumption of certified produce enable and train smallholders to increase income networking and lobby in the rights approach link smallholders to commercial actors promote organic principles promote renewable energy train generic Quality Management

Appendix 7: Indicators for parties involved in inclusive improvement

This appendix suggests a list of improvement indicators below, based on the following assumptions:

- Consumers increasingly buy certified produce and expect it to contribute to sustainable development and poverty reduction.
- Poverty largely overlaps with small-scale production.
- Poor people largely depend on markets.
- Poverty reduction equals strengthening market position.
- Civil society actors put pressure on major commercial actors in relevant production chains to focus attention on sustainable development and poverty reduction.
- The output volume of most smallholders is too small for them to operate individually in the market. They have to operate as a group.
- The management of smallholder groups is too weak to continually improve.
- Buyers, trainers, standards and certification bodies and funders need to interact better to achieve sustainable development and poverty reduction.
- Results of continual improvement cannot be expected in terms of linear improvement over time. There should be room for ups and downs. Failures and problem solving are instrumental in management training.
- Producer groups can usefully plan continual improvement over a three-year period that includes an adequate number (12) of management cycles.
- Short-term progress indicators need to be agreed upon at the start of the three-year period.

The list below is again categorized according to the four interest groups that interact to achieve inclusive improvement. The study has demonstrated that there is ample scope for improvement of all parties.

Regarding producers, typical smallholder groups are large (>120 members) and subdivided in smaller groups (<40 families) with the basic agreement to market at least one product as a group and on the management of that process. Such groups generally have an elected board which appoints a manager. Each subgroup elects/appoints a group leader who represents the group at management meetings. Members of the families in the subgroups participate in the production process. Each family wants to maintain some autonomy over their production unit, which implies a degree of decentralization.

The following outline lists some indicators to measure progress.

1. Improvements among smallholder groups

1.1 Transparency

1.1.1 Indicators of transparency and understanding (which are basic elements in decentralized management):

- timely availability of documents (plans, reports, minutes) for management meetings
- completeness, consistency and openness in documentation with clarity on major problems, marketing, risk management and spreading of risks
- number of reactions during meetings, which demonstrates understanding

1.2 Group cohesion and ownership in the management process

1.2.1 Indicators of group cohesion:
- presence at meetings
- percentage of active producers in the group
- number of producers entering the group
- number of producers leaving the group
- transparency in electing board members and leaders of subgroups

1.2.2 Indicators of participation and ownership in planning measures:
- number of reactions and interventions in planning process
- demonstration of an overview over the planning process
- understanding of and attention to the agreed progress indicators
- interest in and openness to auditing procedures
- appropriate frequency of management meetings
- time discipline

1.2.3 Indicators of planning and priority setting in content:
- clarity, consistency and hierarchy of objectives in the plan
- argumented choice for the standards system with the best cost-benefit for the plan
- completeness in listing weaknesses and problems in the plan
- priority setting related to available management capacity (priority setting needs to be stricter in organizations with weak management)
- degree to which the plan focuses on prioritized objectives and problems
- degree to which progress indicators cover the problem-solving process

1.2.4 Indicators related to monitoring and reviewing:
- degree to which auditing reports are linked to the plan
- percentage of realization of the plan

2. Improvements among buyers

2.1 Indicators of improvements among buyers:

2.1.1 acceptance that suppliers spread their marketing risks over several buyers

2.1.2 sharing of market information

2.1.3 contributions to improvements in the supply chain

3. Improvements among civil society actors, including lobbyists for chain responsibility, trainers and funders

3.1 Indicators of in-depth participation in baseline studies:
- focus on a few product chains and a few related producer countries
- availability of example lists of problems for specific production chains and producer countries
- availability of data on demand, including data on consumer preferences and markets of certified produce
- availability of model priority-setting instruments

3.2 Indicators of availability of a logical framework and long-term planning:
- framework in a format that can be communicated to smallholders
- includes room to accommodate plans of producer groups
- provides an overview of relevant quality standards and markets for certified produce

3.3 Indicators of clarity in procedures to allocate appropriate funding:
- avoiding overburdening, with funding and reporting requirements in sync with the management capacity of producer groups
- producer groups pushed to ask for credit in accordance with their production and management capacity
- subsidies fit with the objectives of the producer group such that subsidization leads to interdependency in the multiparty arrangement
- subsidization leads to increased management capacity

3.4 Contributions made to transparent roles and interaction between actors in civil society and in the multiparty arrangements

4. Improvements among standards and certification bodies

4.1 Indicators of contributions to better interaction between customers and producers:
- consistency of working language
- adaptation of working language to the relevant stakeholders
- availability of standards lists and compliance procedures in formats understood by relevant groups of customers and producers
- stakeholder participation in the development of the standards system

4.2 Indicators of contributions to increased consumer trust:
- consistency between claims on labels and advertising of the standards system
- availability of additional information on demand

4.3 Indicators of availability of a long-term plan addressing supposed market imperfections and market demand for certified and labelled produce:
- data on quality-price relations

4.4 Indicators of capacity to facilitate low entry level producers' compliance with standards:
- limited prohibitive minimum requirements
- emphasis on improvement standards

4.5 Indicators of availability of a procedure to continually improve the standards system:
- capacity to standardize management of smallholder groups and coordinate on generic training modules
- maintaining adequate verification, including internal and external auditing
- availability of accreditation procedures

4.6 Indicators of availability of a financial basis which corresponds to the ambitions and claims in the standards system:
- structural income sources covering the recurrent costs of the standards and certification bodies

Appendix 8: Standardizing continual improvement in a producer group

Improvement is the result of applying a PDCA cycle in a continual process that can be standardized. It is expected to be a long process, which is a reason to build in progress indicators. The focus here is on low entry level groups producing tropical commodities. The proposed standards are based on the PDCA cycle in ISO 9000. Most standards imply an obligation to demonstrate the working of the PDCA cycle. This appendix looks at the PDCA cycle step by step. Suggestions for developing documentation and demonstrating compliance are in italics.

Step 1: PLAN

1.1 The plan reflects a willingness to improve

- the planning process is transparent
- election and appointment of board members and leaders of subgroups is transparent
- the planning process is understood by the group members
- participation at the planning meetings is high

The group invites an external trainer to facilitate the process leading to the plan and to assist in setting up the documentation.

1.2 Procedures to get the PDCA cycle working

- suitably high frequency of management meetings
- adequate composition of management meetings
- adequate internal auditing

Central management, managers of processing units, leaders of subgroups, the board and internal auditors should be present at management meetings.

1.3 Procedures to agree on objectives and priority setting

- adequate agreement on objectives in priority order

Assumed is that the group agrees to sell at least one product as a group, through which it wants to strengthen its income position.

1.4 Capacity to describe the production chain

- an adequate chain description is available

The chain description provides a basis for analysing and solving prioritized (high-risk) problems. The chain description includes control points and responsibilities at the control points relating to the objectives. The group looks for a buyer and discusses the production chain and the improvement process in line with the demand. Apart from language, photos and drawings are also used in the chain description.

1.5 Capacity to quantify risks and review priorities

- documentation from the management meetings demonstrates that the group has an overview over major problems and weaknesses, has the capacity to quantify the risks and regularly updates its priorities

The group identifies causes of the prioritized problems and elaborates preventive measures, which include targeted training at different levels.

1.6 Effectiveness of training

- training and follow-up are documented, indicating effectiveness in relation to solving prioritized problems

Documents indicate why and how the training is organized, who participated, how time lags were avoided between training and application, and how the follow-up was organized.

1.7 Cost-effectiveness of training

- external training is effectively combined with internal training

The external trainer raises awareness of the expense involved in offering external training to large groups. Combinations of external and internal training are more cost-effective.

1.8 Adequate communication with expertise networks

- groups participate in relevant expertise networks

In order to solve problems, the group tries to gain an overview of available knowledge, expertise and training capacity. The group creates links with reference groups and external parties specialized in relevant technical fields.

1.9 Financial soundness of the plan

- agreement on the financial basis of the activities in the plan
- the financial basis of the plan is in line with the level of interdependency that the group wants to achieve

It is assumed that the financial sources are composed of voluntary contributions, internal and external funding and some credit.

1.10 Timely finalization of the plan

- the plan is finalized before the start of the new PDCA cycle, such that persons involved in 'to do' activities can adequately prepare

It is assumed that a low entry level producer group will score low on these 10 points which means that the group relies on external support. It is recommended to set up a multiparty arrangement with the parties involved in the process. It is also advisable to monitor the interaction between the partners and assure that it leads to synergy.

Step 2: DO

The plan is implemented. A progress indicator is the percentage of implementation realized at the end of the PDCA cycle.

Step 3: CHECK

3.1 Management reports on implementation and the internal auditor checks progress against the plan

- internal auditor adequately reports to the management meeting at the end of the PDCA cycle

The internal auditor is adequately trained. The internal auditor is given room to collect data and receives management's report in good time before the management meeting. The internal auditor documents findings. Adequate time is reserved at the meeting to discuss the audit report.

3.2 Certification: The group may want to strengthen the internal auditing by inviting an external certification body. This is required if the group wants to work towards compliance with a global standards system.

- an adequate certification body will be accredited in the standards system selected by the group
- the certification body has the capacity to certify the management system of the group
- the standards body provides a list of accredited certification bodies including external auditors. Producer groups should give preference to certification bodies and external auditors with demonstrated capacity to audit and certify at their low level of management capacity and with willingness to contribute to improvement of internal auditing.

3.3 Auditing: The group invites the external auditor in a timely way.

- the plan is adequately audited on its degree of completeness and compliance with external standards
- assumed is that plans are never complete or compliant, but experiences demonstrate that external auditors will advise positively if they find evidence that the PDCA cycle is working at an adequate pace and the sequence of plans demonstrates increasing completeness and compliance

3.4 Group awareness of minimum requirements

- all group members demonstrate knowledge and understanding of minimum requirements of the external standards system
- the internal auditor has adequate procedures to identify violations
- the group invokes sanction procedures for dealing with violations

3.5 Progress indicators in the auditing process

- percentage of non-conformity identified by the internal auditor in the total list of non-conformities reported by the external auditor
- communication and complementarity between internal and external auditing

Unnecessary overlaps between internal and external auditing create unnecessary costs and irritation. Reducing overlaps requires good communication. Investing in the communication process is typically cost-effective.

Step 4: ACT

4.1 Discussion of the audit report at the management meeting leads to adequate decisions

- decision making on the audit report is adequately documented in the minutes
- the minutes are complete, transparent and understandable by the group members

Step 5: PLAN AGAIN (go back to step 1)

5.1 The sequential planning process is started in a timely manner

- participants in planning meetings make use of the relevant documents

Appendix 9: A national reference group

Introduction

A national reference group consists of a country-related network of specialists, a knowledge base and a convener. It is convened only when a problem arises, after which the convenor selects a sub-set of specialists best suited to deal with that particular problem. The convener is the only permanent member and has the ongoing responsibility to update the knowledge base. The convener is experienced and knows the weak points in the chain. The convenor is a recognized person in the producer country, able to maintain neutrality in conflicts through negotiation and mediation skills.

Tasks of a reference group

According to ISO and HACCP methodology a national reference group should be created to deal with problems and conflicts and to provide support in priority setting. Main tasks of such a group include pooling information on the problem such that adequate answers can be found in a timely fashion (within 2 weeks). Most questions are referred to experts, preferably at the national level, but otherwise at the international level.

Additional tasks of a national smallholder reference group are the following:

- Get recognition from standards and certification bodies to adapt and translate standards and audit protocols.
- Convince standards and certification bodies to harmonize models for quality management and group certification, to filter out overlaps on thematic issues and to facilitate multi-certification.
- Solve contradictions between standards systems and regulations.
- Provide adequate curricula to train smallholder groups at different entry levels in systemic and thematic developments.
- Maintain an updated database with relevant documents.
- Maintain an updated database with trainers and consultants including client ratings.
- Identify relevant commercial actors in the chain. (In most chains a few major actors dominate the chain and many of them agree on the importance of inclusive quality improvements.)

The convener is identified based on a number of qualities:

- ability to maintain an overview on the problems in the chain from the perspective of a particular country and ecosystem;
- ability to maintain an updated database of documentation and consultants, preferably from the same national and ecological context and preferably operating in a national network;
- possesses neutrality and respect among all interest groups;
- ability to convene consultants in the network when a problem arises.

The more the convener is specialized (e.g. in one production chain, one ecosystem, one country, focus on smallholder production only), the more operational, adequate and reliable the reference group can be.

Priority setting based on overview over a chain

A reference group should have an overview of major problems in a specific chain in a specific (national, ecological) context and should advise producers on management and priority setting.

If smallholders and actors in the outer cycle are asked to list problems in the production chain, the following issues are often mentioned:

- lack of overview over the chain;
- insufficient information on consumer preferences;
- lack of access to market information and lack of capacity to use it;
- lack of product development and marketing;
- low product quality and taste;
- low yields (kg per tree);
- trees too old or varieties have little resistance against pests and diseases;
- unhealthy plants, frequent pests and diseases;
- poor soil quality;
- bad pruning;
- quality loss during processing and transport;
- poor drying methods;
- inadequate waste recycling, composting and greenhouse gas control;
- lack of attention to social and gender issues;
- lack of traceability in the chain;
- poor food safety;
- lack of attention to occupational health and safety issues such as accidents or sickness due to spraying and improper handling of chemicals;
- lack of compliance with standards requirements;
- farmers' organization not functioning well;
- lack of transparency in management;
- lack of internal control and quality management;
- insufficient financial planning;
- lack of negotiating skills and contracts between farmers (organizations) and buyers;
- lack of risk management;
- lack of implementation capacity, progress indicators and monitoring of continual improvement.

When it comes to solutions, capacity should be created and training materials developed for smallholder groups at different entry levels and from different language origins. Some training materials are already available. But a reference group should review these, systematize that on offer, identify gaps and adapt the appropriate materials to the entry level and language of the producers.

International reference group

An international reference group provides support to the national level groups. This may include help to systematize training and create product-specific databases. The following outline training curriculum might be suggested, starting with systemic issues and moving on to thematic areas once management achieves a satisfactory basic level.

1. Systemic aspects

1.1 Training on organizational development
- the type of management preferred by the producer group (a more decentralized cooperative or a more centralized outgrower or contract production system)
- the style of management, transparency, cooperative principles, democracy

1.2 Training on quality management including priority setting and internal control systems

2. Thematic issues

2.1 Training on good agricultural practices
- soil conservation and improvement
- composting, plant nutrition, waste recycling, mulching, cover crops, etc.
- pruning, adjusting tree density, age, etc.
- choice of variety
- scouting and integrated pest management
- harvesting

2.2 Training on product development, marketing and pricing
- using market information, including access to information
- product quality and taste
- financial planning, including input-output and price-quality relations, speculation and access to hedging
- negotiating contracts
- chain analysis and risk management
- measuring and monitoring continual improvement

2.3 Training on compliance with standards requirements
- goodwill standards (organic, fair, etc.), including education, social aspects, gender, child labour, etc.
- company standards (Global GAP, UTZ Certified, etc.), including traceability
- professional standards (ISO, HACCP, etc.), including food safety, hygiene, occupational health and safety