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CAPSA
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Product Certification for Sustainable Agriculture

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Introduction

Population growth, increasing urbanization and changes in dietary patterns have put increasing pressure on agricultural sustainability. Additionally, small-scale farmers, who make up the bulk of the people working in the agriculture industry, are often faced with limited access to markets and volatile prices for their products, which exposes producers to serious risks like loss of assets, hunger and increase in poverty. It has become of paramount importance that the Asia-Pacific region, where agriculture's share of GDP is large and the number of small-scale farmers is significant, develops sustainably and with the well-being of smallholder farmers in mind to ensure future economic stability as well as food security.

Certification for promoting sustainable agriculture

Sustainability certifications and other forms of eco-labelling are often considered one of the policy tools to circumvent environmentally unsustainable farming practices, volatile pricing and small-scale producers' poor market access. As a response to the world's increasing concerns about product quality, safety and environmental impacts, eco-labels are awarded to farmers who adopt sustainable agricultural practices, such as reduced pesticides, humane treatment of livestock and soil and/or water conservation.

Certifications and eco-labels offer producers the opportunity to distinguish their produce from those that are not certified. By following the standards of the certification, farmers can improve product quality and thereby demand higher prices. The result is that consumer confidence is boosted and in return, the sustainability certification can provide price premium and higher incomes for producers. The certification can also offer farmers training opportunities that lead to better farming practices, new skills and reduced farm inputs, which may lower production costs and encourage a more sustainable approach to farming in the long-term.

Emerging practices

Studies have demonstrated that certification can enable farmers to obtain a price premium, and can also indirectly reduce the role of intermediaries, guaranteeing a higher price will be paid to producers. Other gained assets that could also bump up producers' income are not earned directly through participation in the certification schemes, but indirectly through the process of capacity-building and increasing farmers' skills and knowledge. Efforts to achieve certain certifications has encouraged farmers to apply the right amount of fertilizers at the right time, and has led smallholders to reduce pesticide and herbicide use, which has ultimately reduced their costs and increased smallholders' economies of scale.

At the national level, some governments have begun to participate in the sustainable certification efforts, expanding farmers' access to government-initiated sustainability-promoting certifications. For instance, in Australia, the country's Department of Agriculture, Fisheries and Forestry issued the “Guidelines for On-farm Food Safety for Fresh Produce,”

and in Japan, the Japanese Agricultural Organic Standard (JAS) for organic plants and organic processed foods of plant origin were established in 2000 by the Japanese Ministry of Agriculture, Forestry and Fisheries. The ASEAN-GAP (Good Agricultural Practice) certification is also subsidized by national governments and the voluntary certification process itself is carried out by national authorities of the ASEAN countries. ASEAN-GAP enhances the harmonization of national GAP programmes so that there is a common standard in the region, which facilitates trade of fruits and vegetables regionally and globally.

Some governments also established certifications for certain domestic industries. For example, the Indonesian Government has introduced the Indonesian Standard Coffee certificate (ISCoffee) and in the future, may require all producers to be certified according to the national standard. Additionally, the Indonesian Sustainable Palm Oil (ISPO) Standard was also initiated by the Indonesian Government in 2011. The ISPO standard is designed to ensure that all Indonesian oil palm growers, not just those exporting to foreign markets, conform to higher agricultural standards. Voluntary implementation of ISPO for independent smallholder farmers began in 2015, and the Ministry of Agriculture has set a target for mandatory ISPO certification by 2022 for smallholders.

Current practices and studies on the impact of eco-labelling and sustainability certifications do reveal that the effects of an eco-label can be significant – contributing to the development of a more environmentally conscious market and setting new standards for product development and manufacturing. Studies suggest that consumers are willing to pay more for products from companies that are committed to positive social and environmental change. Typically, interest in purchasing goods with an eco-label in developed countries. Market research company Organic Monitor estimates the global market for organic food to have reached nearly US$ 82 billion in 2015, with the United States being the leading market and with China being the leading market in Asia as interest in sustainable goods has increased along with its residents' purchasing power.

Still, there's evidence that in developing countries the eco-label holds increasing sway over customer preference as well, and that environmental and ethical concerns among consumers have become a worldwide phenomenon. For instance, Indonesian consumers are willing to pay more for Arabica coffee from Banda Aceh, where buyers in Europe and North America have worked with exporters to improve the capacity of coffee farmers' groups and cooperative, and most of the coffee grown in the Gayo highlands in Aceh is certified by a major certification agency.

Lessons learned

However, not all producers have been able to benefit from sustainability certifications and eco-labels. Past experiences have shown that the transition period towards complying with sustainability certificates can be too costly for farmers. Producers have to absorb the lion's share of the costs of certification – both direct costs such as fees, and indirect ones like the cost of establishing the appropriate infrastructure necessary to meet traceability requirements.

What exacerbates matters is that the adoption of more sustainable methods may require high upfront costs which are not immediately transferred to higher price in product – which means that the farmer may initially lose money. With organic certification for instance, the transition period for conversion incurs great cost, as during this period while the farmer is getting used to the new system, they may see a decrease in the amount of harvest or smaller produce. Organic inputs may sometimes cost more, and labour costs are also likely

to be higher in organic farming systems compared to conventional ones. Many producers – particularly smallholder farmers – have been marginalized from emerging value-added food markets as they do not have the capacity to explore the new market opportunities that have arisen with changes in food consumption habits and increases in disposable income.

To lessen the financial burden on farmers during the transition period towards sustainable methods, locally-focused quality assurance programmes for farmers have been suggested called the Participatory Guarantee Systems (PGS). PGS certifies producers based on the participation of a myriad of local stakeholders. PGS enable the participation of producers, consumers and other stakeholders in the choice and definition of the standards, as well as in the development and implementation of the certification procedures. In general, this provides for greater empowerment and responsibility of the farmers, placing priority on knowledge and capacity-building for farmers and generally means less paperwork, lower costs and more integrated supply chains. The Asian Development Bank has funded a project in the Great Mekong Sub-region that explores using PGS to certify farmers in the area and enhance market access for environmentally-friendly agricultural products.

Studies on the effect of sustainability certificates on producers' income have also demonstrated that the effect of certification can be ambiguous. There is some evidence that gaining a price premium for a good is less the result of the good meeting the sustainability criteria, or by significantly changing the shape of the value chain. Rather, the higher prices certified goods obtain are largely because the goods tend to be of better quality. For instance, coffee exporters in Indonesia determine coffee prices by analysing coffee samples based on occurrence of defects, bean moisture, bean size, organoleptic quality and taste. Studies have shown that certified farmers deliver coffee of higher quality compared to coffee delivered by conventional farmers, suggesting that it is not the certificate that adds value to the coffee, but the indirect effects of the certificate that increased coffee quality.

Even so, some studies also show that sustainability certificates cannot, directly or indirectly, guarantee the provision of premium prices because the supply of the product continues to surpass demand and due to farmers' weak bargaining power. Producers remain largely dependent on other actors, mainly exporters who often set the prices. Buyers, processors and retail companies continue to capture the majority of the value in the supply chain and producers receive only a small share of the final market value of commodities regardless of whether it is certified or not. This problem is cyclical because while farmers' typically lack the capital to purchase equipment to process the food themselves, they also lack access to loans they need to purchase equipment. Recent research has demonstrated that sometimes, certification does not have a direct impact on farmers' income even when the certified farmers were found to have higher and qualitatively better production.

Way forward

Sustainability certifications and eco-labels can offer incentives for producers to engage in sustainable agriculture practices and can result in increased returns to farmers, thanks to product differentiation and as farmers organize themselves horizontally, improve skills and achieve economies of scale. However, it is also true that certifications and eco-labels have also managed to exclude a large number of smallholder farmers.

Policymakers are encouraged to pay attention to the broader economic instruments that may increase capacity-building among smallholder farmers. For instance, lowering the cost of certification by subsidizing the cost of certification for some farmers may encourage

more farmers to undergo certification. Governments should consider whether to adjust the price of goods to better account for some goods' social costs, and simultaneously consider whether sustainable products should be subsidized so that they are more attractive to consumers. And finally, it is also important for policymakers to think about ways to create an environment more supportive for farmers, whether that includes promoting stronger farmer-supermarket linkages, community cooperatives or farmer field schools, to name a few examples. These measures may allow more smallholders to reap the rewards of certifications and eco-labels, without so many of the negative costs and burdens attached to them.

In brief, stakeholders should start assessing what kind of environment would be most conducive to the success of sustainability certifications and eco-labelling. The success of certification schemes, and whether farmers can derive financial benefits from them, are not guaranteed, and success will be affected by many factors like environmental conditions, the ability of farmers to organize themselves into groups, existing farming methods, as well as the availability of local services and the support of NGOs, governments or other agents in the value chain.

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