Finding Missing Markets (and a Disturbing Epilogue): Evidence from an Export Crop Adoption & Marketing Intervention in Kenya

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FINANCIAL ACCESS INITIATIVE RESEARCH BRIEF

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In much of the developing world farmers grow crops for local consumption despite export options that appear to be more profitable. This paper reports on a randomized controlled trial conducted by DrumNet in Kenya that attempts to help farmers adopt and market export crops. After one year, DrumNet services led to an increase in production of export crops and lower marketing costs, which translated into household income gains for new adopters. One year after the study, however, the exporter stopped buying from the farmers because they had not become certified to comply with European export requirements. DrumNet collapsed as farmers defaulted on their loans. The risk of such events may explain, at least partly, why many seemingly more profitable export crops are not adopted.

Testing the Effects of Export Facilitation Services

DrumNet helps farmers switch to export crops by addressing the lack of information and resources faced by many small-scale farmers through loans and by facilitating transactions with exporters. This experimental evaluation consisted of 36 pre-existing farmer self-help groups (SHGs) totaling 1,117 individuals. The SHGs were randomly assigned to one of three groups: (1) a treatment group that received all DrumNet services, (2) a treatment group that received all DrumNet services except credit, or (3) a control group. A baseline survey was conducted of 726 of these farmers, 86% of which were surveyed again one year later.

Results

The authors found positive but not overwhelming one-year impacts. Among groups offered DrumNet services, take-up was greatest for middle-income farmers, and when credit was offered. At follow-up, treatment individuals were 19.2 percentage points more likely to be growing an export crop than control individuals. The authors also analyzed subgroups of farmers as either exporters at baseline or new exporters. Both prior exporters and new adopters increased their production of baby corn, a new cash crop introduced by DrumNet. The researchers only found a significant increase in income for first-time exporters (31.9 percent), however, and no significant

income impact for the full sample. The offering of credit as part of the package of services increased participation, but did not translate into higher income gains for those who borrowed. The gains made by DrumNet were erased when changes to European Union regulations required exporters to become certified by EurepGap. Their failure to do so led the exporter to stop buying crops from DrumNet farmers, which led farmers to sell at loss to middlemen, default on their loans, and ultimately return to growing local crops.

Policy Implications

Two lessons can be drawn from the DrumNet experience. First, on the positive side, DrumNet succeeded in building trust between farmers and exporters by convincing farmers to invest in export oriented production and exporters to purchase the farmers' produce. The increase in income for first-time growers in particular suggests that future interventions should focus on deepening outreach to new farmers rather than to those already producing for export. The second lesson, however, was that an organization facilitating such transactions must take into account changing certification requirements. DrumNet should have covered the substantial infrastructure and maintenance costs needed to certify the farmers for EurepGap. The eventual collapse of the transactions may have generated a loss of trust, the exact problem DrumNet was designed to solve.