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Experience from Bananas, Sugar and Internal EU Agricultural Reform

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Paul Goodison

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Experience from Bananas, Sugar and Internal EU Agricultural Reform

Paul Goodison

May 2011*[1]

[1] Based on a study in 2008

The **European Centre for Development Policy Management** (ECDPM) and the **Technical Centre for Agricultural and Rural Cooperation ACP-EU** (CTA) facilitated a series of workshops with ACP and EU stakeholders on the role of trade in agricultural development. The workshops focussed specifically on the strategic policy directions and support instruments that foster an integrated agricultural transformation in ACP countries. In this context, CTA and ECDPM have launched a series of discussion papers in order to share the most relevant experiences, success stories and best practices on how Aid for Trade can best support ACP agricultural development.

The **Aid for Trade and Agriculture series** will cover various topics such as experiences from Agricultural Adjustments Programmes and implementation of trade policy reforms, as well as lessons from ACP regions.

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The opinions expressed in the text are those of the authors, and do not necessarily reflect the views of CTA and ECDPM.

Abbreviations

ACP	African, Caribbean and Pacific
CAP	Common Agricultural Policy
EC	European Commission
EU	European Union
MIPs	Multi-annual Indicative Programmes
NIP	National Indicative Programme
PMU	Programme Management Unit
SFA	Special Framework of Assistance
SPA	Special Programme of Assistance
SPAM	Sugar Protocol Accompanying Measures

Executive Summary

The EU has extensive experience in designing and implementing agricultural adjustment programmes, whether at home or abroad. This discussion paper seeks to draw the lessons of this experience, analysing programmes in the banana and sugar sectors as well as internal European Union (EU) reforms. A case is made for programmes that are market-led, private sector owned, and responsive to the needs of stakeholders.

The EU's experience with the ACP banana sector highlighted two questions: where to place the emphasis in agricultural adjustment programmes, and who should be responsible for making this choice?
While the EU SPAM took on board some lessons from the banana support programmes, notably by including the stakeholders into the design of the program, current experience suggests that there is still a need for flexible and responsive support instruments which can be coupled with the sector's own resources.
The "Axis 1" of rural development support of the Common Agricultural Policy (CAP), which aims at improving the competitiveness of EU agricultural producers amidst an evolving trade context, is used for "priming the pump": setting in motion a virtuous cycle of employment, investment and sector development. This is exactly what ACP countries are looking for when seeking EU support for production and adjustment. Additionally, Axis 4 of the programme encourages the extensive involvement of 'Local Action Groups' (LAGs) in the design of the policy, underlining the centrality of stakeholder involvement and local design for agricultural adjustment programmes.
The lessons from the EU's experience of relevance to the support ACP agricultural and food producers are fivefold. Firstly, the sheer volume of the EU's support to the competitiveness of its agricultural demonstrates the role that public money can play in 'priming the pump' of the adjustment process; setting off a dynamic response of employment and growth. Secondly, Axis 1 spending goes beyond financing infrastructure or capacity building by providing direct investment subsidies of 50%. This is not allowed in ACP cost sharing grant schemes. Thirdly, the EU has placed great emphasis on delocalising programme design and prioritisation, an approach that could be used at the regional/sector level in ACP countries. Fourthly, the ways in which the EU reconciles the deployment of public aid through private sector bodies in support of public policy objectives needs to be given close attention in the ACP context. And finally, the EU approach crucially seeks to strengthen the organisation of local stakeholders, a cornerstone of the reform process of considerable importance to ACP countries facing liberalisation.

Overall, six major lessons can be drawn from experience to date:

- The constraints faced in working through government structures in supporting what essentially need to be private sector-led processes of production and trade adjustment;
- The importance of ensuring that production adjustments are 'market-led';
- The challenges faced in defining and operationalising the role of the private sector in deploying public support to restructuring processes designed to achieve clearly defined public policy objectives
- The difficulties faced in getting to grips with the particular challenges faced by smallholder producers (the vast majority of those engaged in agricultural production in ACP countries) and the need to strengthen producers organisations in the era of trade liberalisation, if rural producers are to benefit from opportunities which emerge.
- The need to ensure rapid and flexible (responsive) deployment of available assistance within the framework of transparent and accountable structures;
- The need for dedicated financial instruments of support to production and trade adjustment processes, insulated from the normal development aid programming process.

1. Introduction

The EU has extensive experience in designing and implementing agricultural adjustment programmes, whether at home or abroad. This discussion paper seeks to draw the lessons of this experience, analysing programmes in the banana and sugar sectors as well as internal European Union (EU) reforms. A case is made for programmes that are market-led, private sector owned, and responsive to the needs of stakeholders. Six concrete lessons are drawn from the analysis of experience to date: (1) the constraints of working through governments, (2) the importance of insuring that production and trade adjustments are market led, (3) the challenge faced in operationalising the role of the private sector, (4) the difficulties of getting to grips with the challenges faced by smallholder producers, (5) the need to ensure rapid and flexible (responsive) deployment of available assistance, and (6) the need for dedicated financial instruments of support and trade adjustment processes.

2. Experience in the Banana Sector

The EC has extensive experience, dating back to 1994 of extending support to adjustment challenges in the ACP banana sectors. Over time, the EC's approach has become more pro-active, systematic and some would say realistic. Although critically, **aid delivery constraints** and **growing procedural complexity** continue to undermine the effectiveness of the policy response.

The aim of the initial 1994 €95 million Special Programme of Assistance (SPA) to traditional ACP banana producers was to enhance the competitiveness of ACP banana producers. It assumed all traditional ACP banana producers could be assisted to attain competitiveness. It provided support in a multiplicity of forms, with the 2000 evaluation report concluding the most effective support was that which directly extended financial assistance to producers own plans to improve field level productivity[2]. According to the evaluation report, this was particularly the case in Cameroon where a co-financing arrangement was used in association with the companies concerned. Assistance to reforming management structures and marketing arrangements proved less effective in the short term.

In the light of the experience of the SPA, the 1999 Special Framework of Assistance (SFA) placed greater emphasis on supporting diversification and social adjustments. A key innovation of the 1999 SFA was the requirement for countries to draw up comprehensive frameworks for the deployment of SFA support, with annual allocations then being determined within this multi-annual framework. This multi-annual framework approach was to be further elaborated under the Sugar Protocol Accompanying Measures programme. Under the 1999 programme, this saw the development of interventions at four distinct levels:

- **supporting competitiveness** within the banana sector**;**
- **promoting diversification** within the agricultural sector**;**
- supporting **broader economic diversification** outside of agriculture**;**
- supporting **social adjustments** linked to the contraction of the banana sector.

A wide variety of activities were supported within each of these four levels, involving policy choices and the resolution of key questions related to the aims of programme. Two key choices can be identified from this experience, namely:

[2] See "Country Report on Assistance to the Cameroon: Evaluation of EU assistance to ACP Banana Producers", Eva – EU Associations, February 2000.

- where should the emphasis be placed in programme design and implementation – supporting competitiveness, promoting diversification within the sector, promoting diversification beyond the sector, supporting social adjustment ?

- who should be responsible for determining the priorities and emphasis within the programme?

This is not as simple and straight forward an issue as it would at first appear. Different stakeholders have very different interests, with governments often not being independent arbitrators, but rather deeply concerned and affected stakeholders themselves. How these basic questions are addressed affects the **channels** and **instruments** used for aid deployment, which in turn, impacts on the efficiency of aid delivery and its effectiveness.

In getting to grips with the production and trade adjustment challenges in the agricultural and food products sector which will arise in the coming period, how these issues are addressed will be critical to the effectiveness of the support extended. This is an area where the EU's own experience of programme design and priority setting under Axis 1 of its rural development programmes could prove relevant.

3. Experience in the Sugar Sector

The EU response strategy in the sugar sector has sought to combine trade and development assistance components to address the restructuring challenges in ACP sugar sectors. This analysis restricts itself to consideration of the development assistance component of the response strategy. As in the banana sector SFA programme, the Sugar Protocol Accompanying Measures programme has three axis of assistance:

- the enhancement of competitiveness;
- the promotion of diversification;
- support to broader adjustment processes, including addressing the short to medium term social impacts and the establishment of well targeted safety nets.

The February 2005 EC working document elaborated on the types of measures which could be supported under the Sugar Protocol Accompanying Measures programme. With regard to improving **competitiveness** areas of support identified included:

- improving technology and management in the field;
- restructuring production structures;
- developing other sugar cane related products to open up new revenue streams;
- implementing codes of corporate best practice;
- improving environmental management;
- adapting the policy and institutional context;
- improving research and extension;
- developing service infrastructure;
- improving access to finance;
- macro-economic support.

With regard to **diversification,** emphasis was placed on identifying "***a pro-poor diversification strategy***", including:

- ensuring that "the identification of market opportunities" is the driving force in the diversification strategy;
- ensuring that a comprehensive sector strategy is adopted in developing alternative economic activities taking into account: "all levels of the chain and the diversity of enterprises at a given level;

the complementary roles of both the private and public sector; and all factors which influence the diversification potential."

- the adoption of measures to reduce market risk in sectors chosen for diversification:
- ensuring a long-term perspective is adopted.

In terms of support for **broader processes of economic and social adjustment**, it was stressed how national adaptation strategies should seek to carefully target safety net measures and other programmes geared towards dealing with the social costs of the adjustment processes. Explicit reference was made to supporting governments in taking over the management and financing of former industry-run facilities, where the provision of such facilities was adversely affected by EU sugar sector reforms.

Clearly the EC sought to build on the experience in the banana sector, particularly through the emphasis placed on the **compilation of National Adaptation Strategies**. The Sugar Protocol Accompanying Measures programme also sought to build on the lessons of the banana sector by placing emphasis on the need to **bring stakeholders into the design** of the National Adaptation Strategy. However it is not clear whether in designing the sugar sector adaptation strategy, the **operational lessons of the banana sector programme have been fully taken on board**.

Overall some €1,244 million is to be made available to finance Sugar Protocol Accompanying Measures from 2006 to 2013[3]. Multi-annual Indicative Programmes (MIPs) for the period 2007 to 2010 have been formulated and agreed in 16 ACP countries. Preparatory measures were financed in 2006 using an initial allocation of €40 million. Annual action plans for 2007 are in the process of being approved in all beneficiary countries, except Fiji.

While operational programmes under the Sugar Protocol Accompanying Measures programme have only been underway for one year, the overall experience to date suggests a need for:

1. the establishment of easily and rapidly accessible adjustment support instruments, to respond to production and trade adjustment challenges faced;
2. the establishment of simple procedures for the deployment of support to restructuring initiatives;
3. the need for flexible instruments, which are permissive but not prescriptive, in determining the appropriate policy response and types of support deployed;
4. the need for instruments which share risks through 'own resource' deployment so that private sector operators are encouraged to undertake thorough analysis of adjustment proposals before submitting them for support.

[3] See Regulation (EC) No. 1905/2006 of the European Parliament and the of the Council of 18 December 2006 establishing a financing instrument for development cooperation at: http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_378/l_37820061227en00410071.pdf

4. Experience from Axis 1 Rural Development Support

4.1. Overview

In presenting the vision of the EU's rural development policy in January 2005, Agricultural Commissioner Fischer Boel argued that it offered a tool to allow the EU and member states to "***support their farmers, their forestry sector and farm processing industry in the necessary restructuring of these sectors***[4]", with the new rural development policy being "***the driving force in modernising our agriculture***".

Against this background, the explicit aim of Axis 1 rural development programmes is to improve the competitiveness of agricultural and forestry enterprises in the EU. While a minimum of 10% of the total financial allocation to rural development programmes is earmarked for Axis 1 activities, in practice a far higher percentage of funding is allocated to being deployed in support of this objective. Overall the EU's rural development policy is described as "***the key tool for the restructuring of the agriculture sector***[5]", with the aim being to "***help steer this process towards a higher value added, more flexible economy***".

To date, for the period from 2007 to 2013, some €70,000 million has been set aside for rural development programmes in the EU budget (with roughly an equivalent amount being deployed from national government funds). Currently, some 45 rural development programmes have been agreed, at a total cost of € 98,571 million[6]. Of the programmes so far agreed, some 32.87% of funding has been allocated to Axis 1 activities (some €32,403 million)[7]. Extrapolating from this experience to date, in the light of the total EU and member states financing available for commitments to rural development programmes over the 2007-13 period, approximately some €6,574 million per annum[8] is being deployed in public assistance to production and trade adjustment in the EU food and agricultural sector with a view to enhancing the competitiveness of EU production in response to the evolving international trade context and the EU's evolving agricultural trade regime.

Box 1: Recent Objectives of EU Rural Development Programmes

Under the Austrian rural development programme approved on September 20th 2007, 13.8% of total public funding is devoted to improving the competitiveness of the agriculture and forestry sector, through support to "***the modernisation of agricultural holdings, support for the setting up of young farmers, support for investment in infrastructure related to the development of agriculture and forestry***" and "***adding value to agricultural and forestry products by supporting processing and marketing***".

Under the Hungarian rural development programme, 45.9% of public funding is devoted to improving the competitiveness of agriculture and forestry, specifically through targeting "***farm and production restructuring; support for investments in primary and secondary production and infrastructure; support for age restructuring; training and information activities, including the use of advisory services***."

[4] See Speech by Commissioner Fischer Boel (SPEECH/05/22-19/01/2005) http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/22&format=HTML&aged=0&language=EN&guiLanguage=en
[5] See the Special edition of the DG Agriculture newsletter which can be found at http://europa.eu.int/comm/agriculture/publi/newsletter/lisbon/special_en.pdf
[6] This includes both contributions from the EU budget and co-financing from member states.
[7] See annexed tables for details.
[8] Commissioner Fischer Boel in a speech at the informal Agricultural Council in Mainz on May 22nd 2005 indicated that an estimated € 7,000 million per annum will be deployed in support of Axis 1 measures, once all rural development programmes have been approved. This means some 35% of total rural development funding is being allocated to enhancing the competitiveness of EU food and agricultural sector enterprises. See Speech Commissioner Fischer Boel (SPEECH/07/322-22/05/2007 http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/07/322&format=HTML&aged=0&language=EN&guiLanguage=en

Under the Lithuanian rural development programme, 42.2% of public funding is devoted to "***improving the competitiveness of agri-food and forestry sectors***", through support to "***modernisation, technology and innovation….; improving the structure of farms and forest holdings; strengthening human capital***". In Lithuania "***importance is given to the modernisation of agricultural holdings, support for processing and marketing ….creation of producer groups and the improvement of food quality are also among the measures to implement***".

In the case of the three German Lander rural development programmes, 45.7% of the Hamburg programme is devoted to "***improving competitiveness of agriculture and horticulture***"; 39.5% of funds under the Lower Saxony-Bremen programme; but only 16.8% of public funding under the Saarland rural development programme.

In the case of rural development programmes approved for three Italian rural areas, 44.1% of the Veneto rural development programme is reserved for improving "***competitiveness of agriculture through modernisation, innovation and better distribution of the added value through the main actors in the production chain***". Some 32.4% of the Lombardia rural development programme is reserved for support for the "***improvement of the competitiveness of agriculture and forestry***". Some 38.5% of public funding under the Tuscany rural development programme is reserved for "***support to improvement of the competitiveness of agriculture and forestry***".

This is illustrative of the kind of spending which takes place under the Axis 1 rural development window under the 45 programmes so far approved.

Commissioner Fischer Boel has maintained that under the rural development programme "***public money can play a valid role in 'priming the pump' – in providing the initial opportunities which then create a virtuous cycle of employment, investment and attractive living conditions***[9]". This is particularly the case with regard to Axis 1 funding. In many respects **"priming the pump" through the use of public money is precisely what ACP countries are looking for when seeking EU support for production and trade adjustment support**.

In addition to this Axis 1 funding, some 6% of rural development funding (some €5 billion) has to date been programme for deployment in support of the LEADER+ programme under Axis 4 of the rural development programme. The LEADER+ programme is one of the main vehicles for supporting local community engagement with the EU's rural development programmes and policy[10]. The aim of the LEADER+ programme is to get rural actors organised in **Local Action Groups** and draw them into the design and implementation of programmes designed to boost growth and job creation in innovative ways. The LEADER+ programme forms an essential fourth axis of the EU's rural development programmes. According to the European Commission "***at the heart of the leader approach is the idea that workable solutions to local rural problems are not dreamt up in Brussels or the national capitals***[11]". This is why the LEADER approach "***encourages rural communities to tailor their own development strategies***". To date, some 1,500 Local Action Groups have been supported. The EC aim is to encourage greater use of the LEADER approach via Local Action Groups in the new EU member states in Central and Eastern Europe.

[9] See speech Commissioner Fischer Boel (SPEECH/06/278-05/05/2006) at: http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/06/278&format=HTML&aged=0&language=EN&guiLanguage=en

[10] 'Leader' is the French acronym for 'Links between actions for the development of rural economy'.

[11] See "Leader: getting local groups involved in rural development policy", MEMO/07/466, Brussels, 16 November 2007, at http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/466&format=HTML&aged=0&language=EN&guiLanguage=en

4.2. Specific lessons learnt

It is against this background, and that of the rich experience in the design, prioritisation and implementation of rural development programmes which the EU has had since this element of the CAP was substantively elaborated in 2000, that the question arises: **what lessons can be drawn from this EU experience of relevance to the challenges which will face ACP agricultural and food sector operators in the coming period?**

The first point to note is the sheer volume of the expenditures from public funds in support of programmes to enhance the competitiveness of EU food and agricultural sector enterprises in preparation for the introduction of more liberalised trade. This highlights the central role which public funding can play in 'pump priming' the adjustment process, so as to ensure a dynamic response which contributes to employment and income growth.

The second striking point about Axis 1 spending on competitiveness enhancing measures is the scope of the use to which public funds are put. Public funds do not simply seek to ease infrastructure constraints on the competitiveness of EU food and agricultural sector enterprises (this is after all done from other rural development windows and EU structural funds). Public funds do not simply restrict themselves to financing retraining and capacity building or even studies and market assessments. Public funding is used for all of these purposes, but also, where appropriate and consistent with underlying policy objectives, it provides direct capital investment subsidies of up to 50% of the investment costs (split between EU and member states contributions). This goes far beyond what is allowed under cost sharing grant schemes in ACP countries, which tend to be limited to co-financing of the supply of business support services.

Box 2: EU Rural Development Programmes and Supporting Production Adjustment:
The Case of Northumbrian Meat Processors

The aim of this project was to promote nature conservation and profitable production and marketing of environment-friendly meat products. In 1998 a production company was founded by the farmer to enable him to "***directly market his own beef and lamb to local customers and via farmers markets***" – part of the emerging 'luxury purchase' component of the EU market. Public support was provided to the establishment of an on-farm cutting room and cold storage facilities, with a focus on the production of naturally produced organic beef and lamb. When demand began to exceed the farmer's own supply capacities "***the company began working with a number of other local organic producers to maintain year round continuity of supply of high quality products***". This required increased storage and processing capabilities, the purchase of new machinery, the establishment of transport facilities and improved marketing.

Under the EU Rural Development budget, a grant of some €22,000 was provided towards the implementation of these expansion plans. This was complemented by a grant of €22,000 from the UK government. These public funds matched private funding of €44,000 from the company concerned. This public grant was provided on the basis of the stimulus the project would give to local organic meat production and the employment benefits it would generate in the local area.

The grant from public funds represented a 50% investment subsidy for a project which was responding to changing market opportunities, in this instance the emergence of the "farmers market" movement, which forms part of the "luxury purchase" component of the EU food and agricultural product market, one of the only components in which a substantial growth in demand is anticipated up to 2020.

See, "Rural Success Story", European Communities 2006, pp 126-127.

The third point to note about EU rural development programmes is the growing efforts to decentralise programme prioritisation and design. The broad instruments of support are established at the pan-EU level, but prioritisation, programme design and implementation are decentralised and devolved to local or sector bodies. While in the EU this decentralisation largely takes place on a geographical basis, in the context of the trade and production adjustment challenges facing ACP countries, it may need to occur at the regional/sector level.

The fourth point to note about EU rural development programmes is the extent to which they seek to engage with stakeholders, including private sector companies, within a framework for the pursuit of wider rural development policy objectives. Precisely how this is organised in ways which **reconcile the deployment of public aid, through private sector bodies in support of public policy objectives**, is an issue which should be the subject of close examination, given the important lessons this could hold for the deployment of production and trade adjustment support to agricultural and food processing sectors in ACP countries.

A fifth point to note about EU rural development programmes, is the central role given to strengthening the organisation of local stakeholders in rural areas, with 6% of total rural development funding being earmarked for deployment within the LEADER approach, which seeks to build upon Local Action Groups to lead the restructuring process. In some sectors such as the fruit and vegetable sector, strengthening producer organisations is a cornerstone of the reform process. How this is being achieved and what lessons can be learnt from this process in extending support to strengthening farmers organisations in ACP countries is an issue of considerable importance to developments in the coming period of increased trade liberalisation.

5. Lessons learnt from EU's Agricultural Adjustment Programmes

Six major lessons can be drawn from experience to date. These lessons relate to:

- the constraints faced in working through government structures in supporting what essentially need to be private sector-led processes of production and trade adjustment;
- the importance of ensuring that production adjustments are 'market-led';
- the challenges faced in defining and operationalising the role of the private sector in deploying public support to restructuring processes designed to achieve clearly defined public policy objectives
- the difficulties faced in getting to grips with the particular challenges faced by smallholder producers (the vast majority of those engaged in agricultural production in ACP countries) and the need to strengthen producers organisations in the era of trade liberalisation, if rural producers are to benefit from opportunities which emerge;
- the need to ensure rapid and flexible (responsive) deployment of available assistance within the framework of transparent and accountable structures;
- the need for dedicated financial instruments of support to production and trade adjustment processes, insulated from the normal development aid programming process.

5.1. The Constraint of Working Through Governments

It needs to be recognised that ACP Governments face major constraints in providing a lead in responding to production and trade adjustment challenges. Yet working through governments is central to the EC aid deployment process. Indeed, with the growing emphasis on budget support and the distinct preference for the deployment of Sugar Protocol Accompanying Measures support in this form, working through government is a central component of the EC approach to the extension of production and trade adjustment support.

Yet most ACP governments face serious problems in getting to grips with production and trade adjustment processes as a result of constraints at two levels. The first level relates to the understanding of ACP governments of **the nature of the production and trade adjustment challenges (and opportunities) faced**. A problem particularly acute in those countries facing the greatest competitiveness challenges. The second level relates to the **administrative capacity of government to effectively channel and deploy available support**, to what by their very nature need to be private sector-led restructuring efforts. This problem again is particularly acute in those small or least developed ACP countries with a single commodity dependency. Let us consider each of these problems in turn in the light of the banana and sugar sector experiences.

In the Windward Islands, the difficulties faced in getting to grips with the nature of the production and trade adjustment challenges faced in the light of evolving markets has meant that available funding has not to date been deployed in support of market-led restructuring processes. In the banana sector there has only been belated recognition of some of the major market trends which could be exploited in restructuring production, namely the rise of the "fair trade" banana as one component of the 'luxury purchase' market in the EU[12]. This meant that up to 2005, no EC restructuring support was actually deployed in line with this major market trend, although the 2006 biennial report on EU support under the Special Framework of Assistance for traditional ACP suppliers of bananas highlighted the importance of drawing lessons from other relatively successful experiences in the Windward Islands in converting to "fair trade" bananas, since serving this market offers "***an opportunity for smaller-scale enterprises to survive in global market competition***[13]".

There is evidence that this lesson is now being learnt not only in the banana sector but also the sugar sector. The Windward Islands are seeking to convert their entire banana production to 'fair trade' bananas, while Jamaica and Belize are seeking to follow suit after a successful campaign to mainstream the sale of 'fair trade' bananas in UK supermarkets[14]. Belize is also exploring the scope for the export of 'fair trade' sugar, while Illovo now has a desk dedicated to developing smallholder 'fair trade' sugar production and marketing in its Southern Africa division. Looking beyond the 'fair trade' component of the luxury purchase market in Europe, Barbados is developing special sugars, notably its "Plantation Reserve" brand, which through its marketing strategy, is targeting the upper end of the UK market and attracting premium prices previously unimaginable for ACP sugar product exporters.

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[12] This is now fully recognised in Government with a major emphasis being given to supporting the further development of production to serve this component of the EU banana market, not only in the Windward Islands but also Jamaica and Belize. See the uncorrected evidence to the House of Commons Select Committee the Development of the Trade by the Prime Minister of the Commonwealth of Dominica, Roosevelt Skerrit published on February 27th 2007
http://www.parliament.the-stationery-office.co.uk/pa/cm200607/cmselect/cmintdev/uc356-i/uc35602.htm

[13] See EC Biennial report (Brussels, 15.12.2006 COM (2006) 806, final
http://eur-lex.europa.eu/LexUriServ/site/en/com/2006/com2006_0806en01.pdf

[14] See the press article on Sainsbury's decision to convert to 100% 'fair trade' bananas as an illustration of this trend and the Fair Trade Foundation press release at respectively
http://www.foodanddrinkeurope.com/news/ng.asp?n=72800-sainsbury-s-fairtrade-bananas
http://www.fairtrade.org.uk/ps121206.htm

However, these types of developments are the exception not the rule across the ACP. What is more the EC is largely standing aside from this process under the various support programmes which have been set in place. This is to be regretted, given that internally, under the EU's rural development programmes, large volumes of assistance are being extended to market development and product promotion campaigns both internally, within the EU and externally[15]. There is a need for the EC to build on the DG Agriculture experience by beginning to extend assistance to targeted programmes of trade adjustment designed to target new, differentiated and expanding markets for ACP food and agricultural products (see later section).

Turning to the administrative constraints on ACP governments, the seriousness of this problem is illustrated by the experience in the Windward Islands of aid deployment under SFA. From 1999 to 2005 this saw a fourfold increase in the volume of the EC aid allocated to country programmes (compared to the NIP allocations). Administrative constraints in dealing with EU procedures led to very slow rates of aid disbursement, which undermined the value of the assistance extended in support of time sensitive adjustment processes (see table below).

Table 1: Situation of Allocations and Payments December 2004 (€)

Country	9th EDF NIP	1999-2005 SFA Allocation	Total Payments	% payments
St Vincent	€ 5.0 m	40,589,801	3,119,992	7.7%
St Lucia	€ 4.5 m	58,234,810	16,043,206	27.5%
Dominica	€ 15.7 m	43,513,625	4,531,201	10.4%
Grenada	€ 11.3 m	4,000,000	399,974	10%
TOTAL		146,338,236	24,094,373	16.5%

Source: Extracted from EC Biennial report (Brussels, 15.12.2006 COM (2006) 806 final
http://eur-lex.europa.eu/LexUriServ/site/en/com/2006/com2006_0806en01.pdf

New approaches need to be found to deal with these problems. One obvious way of dealing with the administrative constraints on government and the level of understanding of ACP governments regarding the nature of the production and trade adjustment challenges faced, is to **bring producers' organisations in the affected sectors into the process of design and management of programmes of assistance**. While this is relatively easy in some ACP countries because of the existing private sector capacities, in others it is highly problematical and can require **substantial investment in the strengthening of the organisational and management capacities of producer organisations** and industry associations. It can furthermore require direct support to building representative and accountable structures for engagement with the restructuring process.

Under certain of the EC Sugar Protocol Accompanying Measures programmes, efforts are underway to move in this direction. However, such movement is the exception rather than the rule, and is slow and uncertain, with annual action plans not always reflecting the aspirations set out in the multi-annual indicative programmes.

However, as the EC's own internal experience would appear to bear out, promoting such involvement would be essential, if assistance is to be efficiently and effectively deployed in support of targeted restructuring programmes, which effectively meet the challenge of changing market conditions.

[15] Since May 2005 in the food and agricultural sector programmes receiving over €330 million in financial assistance have been announced

5.2. The Centrality of Market Led Adjustments

One of the important lessons from the banana and rum experience in the Caribbean is the importance of ensuring restructuring efforts are **market-led.** In this context, there is a need to devote greater efforts to **developing the capacity** in ACP companies **to serve those components of the EU market which are growing and which are benefiting from stronger price trends**[16]. The importance of making this shift has been recognised by Agricultural Commissioner Fischer Boel. Speaking at a meeting on the EuroMed agreements in Strasbourg in September 2006 Agricultural Commissioner Fischer Boel highlighted the importance of extending support to Mediterranean exporters in meeting EU food safety standards and in helping them move into high quality agricultural production. She noted how "***we cannot build a sound future solely on the foundation of bulk production***[17]". She also wished to "***see more funding from our Euro-Mediterranean policy channelled into building capacity for high quality production***" and support for "***effective marketing***" which "***needs to be on our to-do list***".
Given the process of preference erosion underway in ACP-EU trade relations, this could appear an issue which also need to be on the EC's "***to-do list***" for future EC-ACP cooperation activities. In this context key areas where public support could usefully be deployed include:

- identification of luxury purchase markets;
- development of marketing strategies;
- enhancing of packaging and design components for new 'luxury purchase' products;
- identification of corporate relationship models which enable producers to benefit from the exploitation of high value, 'luxury purchase' markets in the EU.

This kind of support is very much a feature of internal EU agricultural restructuring programmes, with, since May 2005, some €330 million in public aid under EU programmes having been deployed in support of market development and product promotion campaigns both within the EU and beyond its borders.

5.3. Operationalising the Role of the Private Sector

This third important lesson from the experience to date relates to **the importance of recognising and operationalising the role of industry players in priority setting, programme design, management and implementation of production and trade adjustment programmes**.

The central role of industry players in addressing the productivity improvement challenge is well illustrated by the experience of the Cameroon banana sector, where improved field level productivity was supported based on the banana industry's own plans for improving yields and reducing costs (co-financed on a 50/50 basis). According to the February 2000 evaluation of the SPA in Cameroon,[18] this approach carried a number of distinct benefits. It greatly facilitated the disbursement of funds, since tendering procedures were simplified and actions could be pre-financed, since disbursements were made against receipts from the companies concerned. It also facilitated control of expenditures and greatly simplified the

[16] For details of what types of markets for food and agricultural products are likely to be stagnant in the coming period and face declining price trends and which components of EU food and agricultural markets are likely to be growing and face buoyant price trends, see the analysis contained in the Scenar 2020 study, which can be found at: http://ec.europa.eu/agriculture/agrista/2006/scenar2020/final_report/scenar2020final.pdf

[17] The speech of Agricultural Commissioner Fischer Boel (SPPECH/06/548-28/09/2006) can be found at: http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/06/548&format=HTML&aged=0&language=EN&guiLanguage=en

[18] See "Country Report on Assistance to the Cameroon: Evaluation of EU Assistance to ACP Banana Producers", Eva – EU Associations, February 2000.

administration of EC assistance. The pre-financing arrangement gave stakeholders a strong stake in good administration, since they wouldn't get their money back if they couldn't verify the expenditures made[19].

Given the early success of the Cameroon programme in delivering production improvements, which directly assisted the banana industry in winning market share in the EU and exploiting remaining preferential market opportunities, the question arises: **do EU procedures still allow the provision of this form of assistance and if so how can its deployment best be organised?**

In the sugar sector meanwhile the multi-annual indicative programmes in some countries appear to be grappling towards developing new models for the deployment of public sector support to private sector-led programmes designed to achieve public policy objectives, through the use of Trust Funds. This Trust Fund model potentially offers not only a means of engaging effectively with the private sector and other stakeholders, but also a means of getting to grips with challenge of effectively supporting smallholder producers in responding to the challenges faced (see later section).

Given the centrality of working with economic operators when seeking to enhance competitiveness in response to trade policy-induced competitiveness challenges, a critical policy issue becomes **under what circumstances and in what form can public aid be deployed in support of private sector-led restructuring initiatives, designed to achieve public policy objectives with regard to economic diversification, structural economic transformation and employment creation?**

This is an issue to which far greater attention needs to be paid, by looking at what models have worked and what existing models can be further developed to fully get to grips with this challenge.

5.4. Getting to Grips With the Problems of Smallholder Producers

The experience in the banana and sugar sectors highlights the difficulties faced in supporting smallholder farming in meeting production and trade adjustment challenges. The experience in the Windward Islands suggest that delivering such support is extremely difficult. A review of activities in St Vincent up to December 2004 revealed that only 2.5% of funds paid out (€76,557 out of a total of €3.12 million) had been deployed on projects directly relevant to reducing costs and improving the quality of banana production. This amounted to less than 0.2% of the total financial allocation made to St Vincent under the SFA between 1999 and 2005[20].

Often intermediate structures need to be established to deliver assistance, but while this can facilitate the delivery of assistance it can greatly raise transaction costs. For example, in St Lucia, the establishment of a rural credit scheme to reach out to small scale farmers resulted in management costs 50% of the value of the loans secured. While in St Vincent 26% of total expenditures up to December 2004 went on the regional technical assistance component of the programme.

This highlights the difficulties faced in assisting smallholder farmers in meeting production and trade adjustment challenges, even where dedicated funding is made available. The need to get to grips with this challenge appears to have been recognised under certain EC financed Sugar Protocol Accompanying Measures multi-annual indicative programmes, with efforts underway to use the Trust Fund approach as a

[19] It should be noted that in the case of Cameroon, Ivory Coast and Belize, EC support to improving competitiveness enabled these countries to expand their exports to the EU as and when the opportunity arose.
[20] See data contained in EC Biennial report (Brussels, 15.12.2006 COM (2006) 806, final http://eur-lex.europa.eu/LexUriServ/site/en/com/2006/com2006_0806en01.pdf

vehicle for effectively extending support to smallholder producers. However, if this potential is to be realised then some very basic issues will need to be addressed with regard to **priority setting** and **decision making**. As the EU has acknowledged under its own rural development programmes, there is a need to actively encourage local communities "***to tailor their own development strategies***", to come up with innovative yet workable solutions to local rural problems. It is in this area where the current 'Trust Fund' approach if suitably elaborated, (in the light of the EU's own internal experiences of engaging with local communities) could prove invaluable.

Currently with stakeholders being consulted, a Programme Management Unit (PMU) being formed to administer day to day operations and the EC Delegation having a more or less active oversight role with regard to priority setting and resource allocation, the scope for disagreement and conflict is considerable. To mininise the scope for conflict and disagreement there will be a need for either:

1. a constant dialogue to be maintained between the EU Delegation and any Trusts established; or
2. the early conclusion of a basic understanding between the EU Delegation and any Trusts established, on the priorities for support, with operational details then being devolved to the Trust and the PMU.

If the Trust Fund approach is to become a genuine vehicle for stakeholder participation in determining priorities and allocating available funding to these priorities, in support of the achievement of programme objectives, then it is necessary for the EC Delegation and the Boards of duly constituted Trusts to reach agreement, at an early stage, on:

- the priorities for operational programmes;
- the funding allocations to different priority areas;
- the policy context and flanking measures required to support and sustain the operational programmes.

Once this basic agreement has been reached, specific decisions on which activities to finance within the framework of this agreement should then be left to the PMU and the executives of the duly constituted Trust to determine, in the light of the operational realities on the ground.

If a clear mutual agreement is not first reached between the EC Delegation and the Board of duly constituted Trusts, then day-to-day decision making could become a battleground between the EC Delegation and the executives of the duly constituted Trust, with the potential of the Trust Fund approach for mobilising effective engagement of stakeholders in addressing production and trade adjustment challenges being profoundly undermined.

Finding ways of reducing delays in the deployment of aid to the final beneficiary and reducing transaction costs in delivering support to smallholder farmers, would be essential, if credible programmes of assistance in addressing production and trade adjustment challenges in ways which meet the needs of the majority of ACP producers, are to be established.

5.5. The Needs for Rapid and Flexible Support

A further major lesson from the banana and sugar sector experience relates to the need to ensure rapid and flexible support. Under the emerging conditions in the food and agricultural sector in ACP countries, it is apparent that the restructuring response will need to be 'market-led'. As markets evolve, so the response strategy will need to evolve. This has important implications for aid deployment procedures used to extend support to production and trade adjustments. The 'time sensitive' nature of these adjustment processes cannot be over-emphasised. It is vital that the timeframe from conceptualisation to implementation be as brief as possible, in order to ensure that available market opportunities are fully exploited. This should be a critical consideration in the design and implementation of adjustment programmes. If this procedural challenge is not met, then the value of any assistance extended will be greatly reduced.

An extensive experience of the deployment of EC assistance in support of sector-based restructuring now exists. It would be appropriate to undertake a systematic review of the type of procedural arrangements which most swiftly and effectively deliver support to different types of targeted restructuring support measures, within the framework of accountable management structures.

In the Windward Islands there has been no shortage of funds for the financing of banana sector adjustment/diversification measures. The critical problem faced has always been **swiftly deploying** the funds made available in support of targeted programmes of production and trade adjustments. In this context, it should be noted that on occasion, in the Windward Islands, banana sector adjustment measures have become indistinguishable from general development assistance programmes (whether road infrastructure, a traditional favourite of the EC, or general education which is an increasingly favoured area of support). This is also increasingly the case in the sugar sector. This is unfortunate since there is a considerable agenda of specific adjustment needs to be addressed, which remain under-supported and neglected (for example support for development of both the 'fair trade' banana market and 'fair trade' banana production or increasingly the 'fair trade' sugar market and 'fair trade' sugar production).

Overall, as the 2000 "Evaluation of EU Assistance to ACP Banana Producers" concluded, the key lessons from the SPA/SFA experience is that **successful interventions deliver the right mix of investments with minimum delay and low transaction costs[21].** This must be the basic guiding principle for any programmes of support to production and trade adjustment in ACP countries in the coming period.

5.6. The Need for Dedicated Financing Instruments

Under both the banana and sugar sector programmes, there has been a tendency to use funding to finance 'conventional' development assistance programmes in those areas where the EC has the greatest experience and an on-going engagement. This, alongside the administrative constraints on ACP government in going 'pro-active' in responding to the new production and trade adjustment challenges which are emerging is generating a tendency to focus on existing 'conventional' development cooperation activities which are ready to go, rather then getting to grips with the new trade and production adjustment challenges which are emerging in the new context of ACP-EU agricultural trade relations. This has been a feature of EC banana sector support programmes in the Windward Islands, with major road programmes

[21] See "Evaluation of EU assistance to ACP Banana Producers", Eva – EU Associations, February 2000.

being financed under the SFA and is a major feature of the utilisation of the Sugar Protocol Accompanying Measures annual action plans[22].

Against this background, there is a need for dedicated financing instruments in support of production and trade adjustments in ACP agricultural and food product sectors, which are insulated from ‘conventional’ development cooperation programmes. This could be an important lesson from the banana and sugar sector experiences to date.

[22] This is a particularly acute problem at the present time given the funding gap which the EC will face between the legal termination of the 9th EDF and the legal entry into force of the 10th EDF. Unfortunately, given the ratification procedures of the 10th EDF, which requires approval of all 27 EU member states Parliaments, it appears unlikely that 10th EDF funding will become legally available for deployment until 2010 at the earliest. This leaves the EC with a rather embarrassing two year period when no new funds will be legally available for deployment in ACP countries. This ‘funding gap’ could seriously delay on-going planned EDF programmes in certain countries. Against this background the EC is seeking to mobilise all available un-utilised funding to “bridge” the funding gap for the 2008-09 period. In certain ACP countries the annual action plans under the sugar protocol accompanying measure programme provides a ready source of such “bridging finance”. While this makes eminent good sense from the perspective of on-going EDF programmes, it rather distracts attention away from getting to grips with production and trade adjustment challenges which will be faced in the coming period.

Annex I

MULTI-ANNUAL RURAL DEVELOPMENT PROGRAMMES APPROVED IN 2007

Table I:1 Rural Development Programmes Approved in November 21st 2007 for period 2007-13

Country		Total Programme (€ millions)	Axis 1 (€ millions)	Axis 1 (% total)
Wallonia		477	222.0	46.5%
Estonia		925	347.6	37.6%
France	**660**			
- Martinique		146	107.1	73.4%
- Reunion		514	378.2	73.6%
Germany	**3,288**			
- Meckelenburg/western Pomerania		1,153	313.3	27.2%
- Schleswig-Holstein		1,068	143.1	13.4%
- Saxony-Anhalt		1,067	315.2	29.5%
Greece		5,078	2,254.9	44.4%
Italy	**3,994**			
- Calabria		1,084	444.5	41.0%
- Piemente		897	342.4	38.2%
- Sardaigne		1,253	350.8	28.0%
- Unbria		760	304.0	40.0%
Portugal	**4,767**			
- Mainland		4,444	2,081.0	46.8%
- Asores		323	151.2	46.8%
Slovakia		2,563	835.4	32.6%
Spain				
- Navarra		325	219.7	67.6%
TOTAL AGREED NOV. 07		**22,077**	**8,810.4**	**39.9%**

Table I:2 Rural Development Programmes Approved October 2007 for the period 2007-13

Country	Total Programme (€ millions)	Axis 1 (€ millions)	Axis (% total)
Germany (3 Lander)	**2,647.0**	**631.1**	**23.8%**
- Baden-Wurtemberg	1,265.6	207.2	16.4%
- Rhineland/Palatinate	486.6	181.2	37.2%
- Thuringa	894.8	242.7	27.1
Italy (3 provinces)	**2,406.1**	**1,002.8**	**41.7%**
- Campania	1,882.3	752.9	40.0%
- Fruli Venesia Giulia	247.2	106.3	43.0%
- Liguria	276.6	143.6	51.9%
Cyprus	325.0	140.5	44.7%
Belgium (Flanders)	667.6	449.0	67.3%
TOTAL	**6,045.7**	**2,223.4**	**36.8%**

Table I:3 Rural Development Programmes Approved in September 2007 for period 2007-13

Country	Total Programme (€ millions)	Axis 1 (€ millions)	Axis 1 (% total)
Austria	7,822.3	1,078.5	13.8%
Hungary	5,159.1	2,366.4	45.9%
Lithuania	2,260.4	930.2	42.2%
Germany	**1,552.6**	**648.5**	
- Hamburg	49;3	22.5	45.7%
- Lower Saxony	1,446.8	616.5	39.2%
- Saarland	56.5	9.5	16.8%
Italy	**2,653.6**	**1,017.9**	
- Veneto	914.7	403.1	44.1%
- Lombardy	899.8	291.7	32.4%
- Tuscany	839.1	323.1	38.5%
Total	**19,448.0**	**6,041.5**	**31.1%**

Table I:4 Rural Development Programmes Approved July 2007 for period 2007-13

Country	Total Programme (€ millions)	Axis 1 € million	Axis 1 (% total)
Germany	**6,326.9**	**1,643.0**	**26.0%**
- Bavaria	2,507.9	553.8	22.1%
- North-Rhine/Westphalia	794.7	217.4	27.4%
- Saxony	1,206.4	266.2	22.1%
- Hessen	436.7	120.2	27.5%
- Brandenburg	1,381.2	485.4	35.1%
Poland	17,217.8	7,231.5	42.0%
Slovenia	1,159.0	382.5	33.3%
Northern Ireland	323.0	32.3	10.0%
TOTAL	**25,026.7**	**9,289.3**	**37.1%**

Table I:5 Rural Development Programmes Approved June 2007 for period 2007-13

Country	Total Programme (€ millions)	Axis 1 € millions	Axis 1 (% total)
France	10,842.2	3,710.9	34.24%
Finland	6,626.0	728.9	11.00%
Holland	973.0	291.9	30.00%
TOTAL	**18,441.2**	**4,731.7**	**25.6%**

Table I:6 Rural Development Programmes Approved May 2007 for period 2007-13

Country	Total Programme (€ millions)	Axis 1 € millions	Axis 1 (% total)
Czech Rep.	3,615.0	699.7	22.39%
Sweden	3,917.0	607.1	15.5%
TOTAL	**7,532.0**	**1,306.8**	**17.3%**

Table I:7 Running Total RDP spending 2007-13 (Total and Axis 1) May to November 2007

	Total Programme (€ millions)	Axis 1 € millions	Axis 1 (% total)
November 2007	98, 54 0.6	32.403.1	32.9%
October 2007	76,463.6	23,592.7	30.9%
September 2007	70,417.9	21,369.3	30.3%
July 2007	50,969.9	15,327.8	30.1%
June 2007	25,943.2	6,038.5	23.3%
May 2007	7,532.0	1,306.8	17.3%

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