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INVESTMENT AND TRANSFORMATION IN THE ACP AGRICULTURE SECTOR

A NEW APPROACH TO ACP GROUP SUPPORT FOR THE DEVELOPMENT OF AGRICULTURE VALUE CHAINS

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I. INTRODUCTION

1. In 2012, African, Caribbean and Pacific Group's (ACP Group) Heads of State and Government during their 7th Summit in Sipopo, Equatorial Guinea, resolved to reduce commodity dependence by making concerted efforts at adding value and higher technological content to commodity exports and diversifying into industrial and services sectors.

2. This was in recognition of the fact that ACP States, despite their potential, are and remain extremely vulnerable to external and endogenous shocks as they mainly produce primary commodities with little value addition and diversification.

3. Therefore any effort to reduce the dependence will require examining ACP initiatives towards supporting the agricultural commodities and specifically the family farms that represent 95% of all farms in ACP countries.

4. In June 2014, the ACP-European Union (EU) Council of Ministers meeting in Nairobi, Kenya adopted a Joint Cooperation Framework for Private Sector Development (PSD) Support in ACP countries. Agricultural commodities are a key driving force for private sector development in ACP States as they account for approximately 90% of total exports.

5. The ACP Secretariat has been developing the new policy on support to the agricultural commodities sector. An initial Forum was held in 2014, which focused on the outcome of the United Nations Conference on Trade and Development (UNCTAD) feasibility study on the new approach to commodities sector. **The objective of the new approach is to identify areas where the ACP Group can make the greatest impact in the transformation of the agricultural commodities sector in the ACP regions.**

6. In this regard, complementarity and synergy building with existing support initiatives currently implemented by various partners and international organisations will be essential.

7. This policy paper therefore reviews the previous support initiatives and proposes policy recommendations for capitalisation and scaling up of support towards the agricultural commodities sector. These recommendations will also guide intra-ACP interventions in support of the agricultural commodities sector.

II. BACKGROUND

8. Support for the agricultural commodities sector[1] has not been among the priorities of public policy at every level. The World Development Report 2008, published by the World Bank, indicated that support for this sector represented a mere 4% of official development assistance, which was the same average proportion of public expenditure for countries in Sub-Saharan Africa, the Caribbean, and the Pacific. The limited support provided was guided by the need to respond to the erosion of preferences, which affects exports of certain ACP agricultural commodities.

9. Since then, the situation has evolved, precipitated primarily by global events, such as the 2008 food crisis.

10. However, agriculture continues to be the sector that, on average, employs the majority of the working population in ACP countries, averaging between 50 and 60%. Likewise, the agricultural sector still contributes 20% of Gross Domestic Product (GDP), on average, in ACP countries, ranging from over 50% (Chad) to 0.8% (Trinidad & Tobago).

11. According to World Bank studies, agriculture-based GDP growth has the capacity to increase revenues for the poorest communities four times as much as growth generated by any other sector. This institution also believes that growth in the agricultural sector is, in general terms, 2.5 times more effective than any other sector at reducing poverty. The "State of Food and Agriculture 2014, Food and Agriculture organization of the United Nations (FAO) report, highlighted the fact that modernising agriculture alone could result in a qualitative leap for family farms, which represent 95% of all farms in ACP countries. Consequently, support to agriculture will be instrumental in fostering attainment of major Sustainable Development Goals (SDGs), notably ending poverty (SDG #1), hunger (SDG#2) and contributing to economic growth and the generation of decent jobs (SDG #8).

12. While family farms account for the largest portion of cultivated lands, many of them lack the production capacity required to both feed the family and have a significant enough surplus to sell on the market. In most cases, these farms do not have sufficient access to the goods and services that are input into the production process and/or to the technological advances that would enable them to increase yields. Similarly, they lack access to innovative technologies that would add value through preservation, processing and /or packaging of the agro-pastoral outputs. They are often disconnected from their sales markets and either consume their products locally or sell them to intermediaries on terms over which the family farmers have no control. The activities of these farms are diverse by nature, and may also include livestock farming and fishing, based on a food and nutritional security approach.

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[1] *Agricultural commodities include agricultural crops, along with livestock, fisheries and forestry products.*

13. Furthermore, the poor quality of rural infrastructures makes it difficult to transport products outside of their production zones. When this is coupled with inadequate product storage facilities, post-harvest and post-capture losses become too frequent and too high. All of these obstacles combine to limit producers' revenues and, consequently, their capacity to invest through self-financing and access capital from financial institutions.

14. Agriculture will always be largely at the mercy of the climatic events which are more likely to be exacerbated by climate change. Too much rain, too little rain, or simply rain at the wrong time can devastate a farmer's crop. ACP countries are among the most vulnerable to climate variability and extremes given that only a small proportion of its cultivated land is irrigated and food production is dependent mainly on rain-fed agriculture. Impacts of climate change on crop yields are already evident across several ACP regions. While the risks are huge and multi-dimensional, they are largely manageable if appropriate adaptation policies and practices are adopted.

15. It is therefore critical to address these agricultural challenges with effective instruments, by targeting small producers primarily, but not exclusively, and connecting them to the market, at the appropriate level. Support will also target ACP small and medium commercial farmers, as well as other value chain operators as appropriate, in the light of relevant needs analysis. Ultimately, there is a need to invest in agriculture, fishing and livestock farming, strengthen linkages between agriculture adaptation and finance mechanisms as well as to integrate the agro-industrial sector stakeholders of ACP countries into national, regional, and international value chains.

16. Achieving agricultural development in ACP countries would require the mobilization of financing to support sustainable growth and modernization of family farms, thereby making agriculture more attractive particularly to young persons. It will also involve improving the availability and access to a range of ancillary services that are input to farming activities, and more generally constitute key drivers for increasing the productivity. The twofold objective of this growth is, on the one hand, to make enough quality food available to satisfy the needs of the population and, on the other, to ensure sufficiently profitable revenues for producers and their families.

III. FROM REACTIVE SUPPORT FOR THE COMMODITIES SECTOR TO AN ACTIVE VALUE CHAIN INCLUSION POLICY

A. Support Initiatives

17. In July 2003, through the Maputo Declaration on Agriculture and Food Security, African countries pledged to allocate 10% of their national budget to agricultural development. The Comprehensive Africa Agriculture Development Programme (*CAADP*) was established to accelerate agricultural transformation on the continent. At the same time, in the Caribbean, the "Jagdeo Initiative"[2] was developed, which emerged as a mechanism to move the region's agricultural sector forward through the removal of key binding constraints.

18. For the ACP Group, beyond the institutional support from the CTA[3] primarily, and to a lesser extent from the Centre for the Development of Enterprise (CDE), for a long time most of the support was tied to the change in market access conditions for agricultural raw materials. The STABEX (System for the Stabilisation of Export Earnings) was in force under the Lomé Conventions from 1975 to 2000.

19. At the sectoral level, a special support (Special System of Assistance) was introduced in 1994, and subsequently renewed in 1999 (Special Framework of Assistance) for 10 years. The development of numerous new standards and regulations conditioning entry to European Union markets lead to the setting up of new supports, at the request of the ACP Group, in order to safeguard market access for products from ACP countries. Successive programmes were put in place and entrusted to the Europe-Africa-Caribbean-Pacific Liaison Committee (COLEACP), a civil society organisation (CSO) established in 1973 whose main purpose is to support the development of sustainable and competitive agriculture and agribusiness specifically in international fruit and vegetable trade.

20. The substitution of the Lomé trade régime by Economic Partnership Agreements (EPAs) between the European Union (EU) and the ACP regions, in conjunction with the pressures placed on ACP preferences at the World Trade Organisation (WTO), especially as regards products covered by protocols in the Cotonou Agreement, lead to the dismantling of agricultural commodity-related protocols by the end of the 2000s. The last compensatory support was allocated to those ACP countries that were previously sugar protocol signatories[4] and to the main ACP banana supplying countries[5].

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[2] *Named after the former Guyanese President, the Jagdeo Initiative adopted in 2005 is a strategy for removing constraints to the development of agriculture in the Caribbean. It builds upon past regional efforts to elaborate the Articles 56-60 of the Revised Treaty of Chaguaramas relative to the Community Agricultural Policy (CAP) and identifies ten key binding constraints faced by the sector. In October 2014, Ministers of Agriculture of the Caribbean Community agreed to revised approach to addressing the constraints through four thematic areas and regional interventions in key commodities.*

[3] *Technical Centre for* Agricultural *and Rural Cooperation, joint institution of the ACP and the European Union.*

[4] *Accompanying Measures for Sugar Protocol countries (AMSP).*

[5] *Banana Accompanying Measures (BAM).*

21. Thereafter, the ACP Group lost its key advantage for activating the compensatory measures behind much of the support mobilised for the agricultural commodities sector. At most, support would be mobilised for ACP cotton-producing countries, following the launch of the sectoral initiative for cotton at the WTO in 2003, and the setting up of an EU-Africa Cotton Partnership.

22. The assistance measures aimed to:

- increase productivity and improve product quality, including in the field of plant health;
- adapt production, distribution or marketing methods, particularly in the context of the standards prevailing in the EU;
- establish producers' organisations to improve the marketing and competitiveness of their products;
- develop fair trade, and systems of certifying environmentally-friendly production methods;
- develop a production and/or marketing strategy to meet the requirements of the market;
- assist with training, market intelligence and the development of environment-friendly and fair production methods; and
- support the diversification of production where improvement in the competitiveness of the sector is not sustainable.

23. Agricultural commodity-based support at the intra-ACP level therefore remained specific, sectoral, and compensatory until the end of the 2000s, above all seeming to be reactions to the change in European and international policies.

B. Overview of current state of play and future perspectives

24. The formal end of commodity-related protocols in the revised Cotonou Agreement of 2010 and the 2008 food crisis served as a turning point to accelerate the dynamics that began at the start of the 2000s, favouring broad support for the agricultural commodities sector.

25. Considering the policies implemented to date, and the support provided to the farming sector in the ACP countries, it is clear that the proposed solutions were incomplete, insufficient and at times inadequate; and this despite the fact that the needs of the sector have been expressed and identified in the past. Moreover, after the formulation and implementation of sectoral policies and instruments in response to expectations, several new developments have emerged, which indicate the need to rethink interventions in support of the agricultural commodities sector.

26. The structure of agricultural production today is increasingly being considered from a national, regional, and even global value chain perspective. To integrate family farms into these value-chains, there needs to be greater innovation that will enable them to increase their production and improve their management practices.

27. In this integration process, and particularly at the All-ACP level, actions need to be considered in terms of their point of greatest impact. Consequently, in order to reach family farmers, in general, action would need to be taken at the level of their groupings, or through cooperatives, local platforms, and national or regional networks. These various producer organisations (POs) must be made more efficient, with capacities to make them acceptable and effective partners for the other actors. Their institutional, technical and managerial capacities must thus be strengthened, as well as their governance structure.

28. The growth in population and middle classes in ACP countries, and the inevitable growth in demand for locally processed food is developing into a major driver of rural transformation and opportunities for family farm activities and off-farm employment.

29. Agricultural transformation in ACP countries therefore means providing agricultural entrepreneurs, especially family farms, with both new human and material capacities, and strengthening their influence in relations among actors in the agricultural sector. These agricultural entrepreneurs must be involved in the decision-making process for innovation and modernisation, from design to realisation, to ensure the success and sustainability of such an endeavour.

30. Innovation will result from a rehabilitation of agricultural research that also embraces the value chain approach. Doing so implies going beyond production-related research to encompass policy-related research and applied research directed at operational hurdles that hinder competitiveness of ACP agriculture.

31. More emphasis should also be placed on organization of actors beyond the farm gate – e.g. food processor associations; trader associations, all of whom struggle with similar constraints to farmers. These actors provide access to markets for farmers, albeit often in a fragmented and disorganised fashion which calls for remedial measures. They also offer alternative employment to rural youth who prefer not to work on the farm.

32. It has also been observed that despite the fact that the situations presented are often complex, the solutions frequently stem from similar approaches. Even when approaches vary, it is necessary that solutions developed be documented in a repository of knowledge, and that resources be pooled for more effective action.

33. The regional approach therefore emerge as the one best suited to deliver a structured solution. Fortunately, ACP countries have regional policy frameworks to manage agriculture. These frameworks, that have made modernising agriculture a main priority, are being articulated to attain this objective. Ultimately, they should provide for greater investments and resolve the challenges identified, from the general lack of liquidity and assets that are acceptable as guarantees, to limited access to financial institutions.

34. The new direction of ACP commodities sector support will therefore involve investing in the preparation of road maps, transformation of production models and the transformation of agricultural products, with a view to inclusion in regional and global value chains and reduced commodity dependence. The ACP Secretariat will have a leading role in the New Approach developed with its constituents in a fully participatory manner. In close consultation with, and collaboration of stakeholders at regional and national ACP levels, the ACP Secretariat will ensure the successful dissemination and implementation of the New Approach. It will support ACP actors in acquiring and applying the tools relevant to implementation, and monitor the unfolding of the New Approach across ACP regions, becoming in effect a platform for coordination and exchange of knowledge and experience accumulated in the various ACP regions.

IV. POLICY OPTIONS

35. The foregoing analysis underlines the mismatch between past support and the real needs of ACP agriculture. The prospective overview puts emphasis on the role of family farms and ACP agricultural entrepreneurs more broadly, and the pertinence of the regional approach in delivering more adapted solutions. The New ACP Approach in support of the agricultural value-chains confirms the role of the Secretariat as a facilitator not only of implementation of interventions, but also of knowledge sharing and lessons learning.

36. In line with the principle of subsidiarity, and in view of limited resources, interventions at ACP-wide level will necessarily focus on a limited number of entry points which are not being catered for at other levels, and where impact is likely to be most significant. An analysis of Regional Indicative Programmes (RIPs) and interaction with ACP stakeholders point to four main policy areas that could benefit from such ACP-wide support, namely:

   a. Finance;
   b. Capacity Building;
   c. Trade and Investment; and
   d. Climate-related Risks.

37. These are elaborated upon in the sections that follow:

A. Finance

38. Studies conducted by the World Bank and regional institutions have reported that, by and large, less than 10% of lending to the economy is directed towards the agricultural sector, and, more often than not, to support cash crops. Of this amount, barely 2% is allocated to family farms. Moreover, financing is generally short-term, and primarily in the form of seasonal and pasture-crop credits. The larger share of the financing is allocated to crop production, with practically no support for the fisheries and livestock sectors. The interests charged to agricultural and agribusiness activities is excessively high and conditions for accessing these funds are usually not affordable by farmers and many small scale agribusinesses.

39. Currently, most of the meagre support received by family farms is provided by microfinance institutions (MFIs). Certain deficiencies have been noted with regards to their interventions, which would first need to be corrected.

40. Therefore, additional support, beyond the capacity of the MFIs, would need to be mobilised.

(i) Improving MFI involvement

41. The solutions provided by the MFIs, generally the only financial institutions operating in rural areas, often fail to meet the expectations of the sector. MFIs do not actively market their services.

42. The responsiveness of MFIs is a key factor. For interventions linked to the organisation of the crop year, support measures must be mobilised in time. Many producers' organisations have reported that application-processing times are too long, and that replies to requests for financing – even positive replies – come too late, when the need no longer exists.

43. And of course, the interest rates charged by MFIs tend to be higher than the average internal rates of return of most agricultural ventures. MFIs would need to introduce measures that would make the financial products they offer compatible with agricultural ventures. Thus, innovative technologies such as mobile payments have contributed to reduce transaction costs dramatically. In parallel, there would be need to put in place the legal and regulatory frameworks that ensure availability and affordability of finance, particularly to farmers and small-scale producers for exportable products and food production.

44. But top on the list of farmers' unmet needs is financing for productive investments and first-stage processing, which, if addressed, would support their efforts to transform their profession. The lack of such financing hinders development of agricultural techniques, access to new technologies, improvements in yields and quality, and the attractiveness of the sector to young people. However, while priority could be on the first-stage processing, it would be useful to look at the entire supply chain, ensuring that farmers and small scale producers are not marginalized.

(ii) Finding financial products suited to the current challenges in family farming

45. Today, family farms are in critical need of medium- and long-term financing to carry out their activities. Innovative alternative forms of financing need to be explored to meet the demands of the farming sector. Small farmers need specialized financial services, which may include leasing schemes, warehouse receipts, and similar alternative to collateral based lending. Successful guarantee funds and facilitation funds must be studied in view of replication and scaling-up. Moreover, in line with the value-chain perspective propounded under the New ACP Approach, innovations should be introduced through value-chain finance schemes, where different actors are included, and the family farm is only an indirect beneficiary.

a. Transformation of production methods

46. First of all, production methods would need to be improved by facilitating access of rural entrepreneurs to innovative technologies that capitalise on the results of agricultural research. Thus, better access to modern equipment, suited to the needs of family farms, is necessary. Indeed, acquiring agricultural equipment is often essential to intensification (animal traction, motor-driven pumps, small-scale mechanisation...) and its cost is generally high compared to production prices. There are nevertheless countless examples demonstrating the considerable qualitative leap that can be made through the acquisition of and access to such equipment.

47. While *ad hoc* programmes provide opportunities to acquire production equipment, long-term solutions and financial instruments are actually needed to support ongoing technological development. In general, perennial-crop plantations (coffee, cocoa, rubber, palm, as well as fruit-trees) require an initial or renewal and maintenance investment; in those cases, first returns on investment can only be expected after several years. In this context, the role of Rural Transformation Centers (RTC), whose main goal is to link smallholder farmers to the food industry, could be explored further and strengthened.

48. Where livestock farming is concerned, medium- and long-term financing requirements are also a key issue, primarily for the initial stocking of herds, or their restocking after disasters.

49. Similar needs also exist in the fisheries sector, particularly for the modernisation of vessels, the acquisition of mechanised artisanal fishing units and for investments in aquaculture.

50. Meeting these demands on an ongoing basis requires the provision of medium- and long-term financing by institutions that understand agricultural production and the impact of such investments on economic performance.

b. Better market control and closer involvement in value chains

51. Investment is also required downstream of production. Analysis has shown that the random nature of the outlets for agricultural products, coupled with a lack of market control, impact negatively on anticipated profitability, which lessens the attractiveness of the sector for financial institutions.

52. Farmers must therefore be allowed to control when their products are put on the market. At an integrated level, the setting up of a commodities exchange would be a response to this issue. At the family-farm level, farmers would be able to take market-price trends into account when planning the sale of their products, by storing their crops while waiting for prices to go up. Investments would therefore be needed to develop adequate storage capacity.

53. Some agricultural products require post-harvest processing before being sold, or could benefit from further enhancements once processed (cassava, groundnut, palm, packaging of certain fruit and vegetables, etc.). Such transformations generally require the use of special equipment, the cost of which cannot be absorbed by only one or two marketing campaigns. So access to medium- and long-term financing is also needed at this level to support the transformation of family farming.

54. In the livestock farming sector, the construction of semi-industrial milk processing plants and modern slaughter houses would give greater visibility to farmers' operations and make the sector more attractive. Diseases control and/or eradication can increase milk/meat and other livestock commodities production. The recent 2011 global eradication of cattle disease has increased trade as well as improved the qualities of cattle commodities. Such investments would also improve prospects in terms of income level and stability for families involved in pastoral activities. Here again, medium- and long-term commitments are needed.

55. Similarly, financing for drying and/or smoking facilities, or canning plants for fishery products is still a need for which the sector is seeking a suitable, long-term solution. The only appropriate response to these needs lies in the access to financing which can be repaid over the medium and long term, given the relatively large sums that need to be mobilised.

56. Lastly, the logistics capabilities required to bring raw or processed products to market are a crucial part of the value chain for which appropriate financing solutions have yet to be found. The emergence of mechanisms that are suitable to finance infrastructural development and the payment capacities of family farms will therefore need to be enabled.

57. Moreover, removing the financial constraints that weigh on family farms would improve the attractiveness of the sector to women and young people. In fact, work is made less strenuous through the introduction of more modern production equipment and climate smart production systems; and the introduction of processing and marketing activities, with access to appropriate resources, generates jobs that would be considered in a more favourable light by women and young people.

58. Financial inclusion could also be enhanced by removing barriers to new entry by services providers. The latter is not simply a matter of liberalization but may call for targeted interventions

B. Capacity Building

59. The development of family farms also depends on their capacity to act as valid partners for other players in the sector. Considerable progress has been made in this area in the last two decades. One notable development has been the emergence of farmers' organisations, formed through the merging of cooperatives, which themselves serve the interests of several producers. Experience shows that the merging of cooperatives to form unions to jointly market production outputs enables more effective mobilisation of financing for storage facilities and financing by the warrantage of crop stocks, with a view to regulating the timing of their release to the market.

60. Nevertheless, the sector needs to be better organised and equipped with capacities in the areas of project preparation and execution and financial management. It is often the case that producers' organisations (POs) and federations lack the capacities and skills to monitor their operations: lack of management tools; inability to monitor agreed procedures; lack of training among elected officials, etc. As such, their capacity to monitor credit appropriations quickly becomes a problematic issue.

61. Removing these constraints would enable family farms to interact more effectively with other players in the agricultural sector, increase their productivity, and play their full role in bringing about a lasting improvement in the domestic food situation.

62. Action would also need to be targeted at other players, particularly financial institutions. Financial institutions are typically not capable to properly assess the agricultural markets and therefore to identify the business opportunities these markets offer. This situation hinders them in designing products and services which are more tailored to the need of farmers.

63. Technical assistance could therefore be geared at bridging this market failure, arising out of information gaps, by enabling financial institutions to better assess agricultural markets, identify investment opportunities, design profitable and sustainable products, while also developing strategic partnership. Financial establishments would thus gain a new understanding of the agricultural sector, and be able to develop instruments that offer reassurances on the profitability of financing in this sector. They would thus be able to deliver services that respond to the needs of their target clients along agricultural value chains. Mirrored capacity building can also be delivered to representatives of value chain actors so that they are well versed in the requirements of finance institutions and can sufficiently defend their own investment proposals.

64. Access to financial services can also be improved through public private partnerships. Financial institutions can be incentivized in penetrating agricultural markets and in reducing interest rates, if the non-financial costs embedded in the provision of financial services to small farmers (such as costs related to capacity building, alternatives to collateral based lending, etc.) could be covered through partnerships with public agencies, donors, or international organizations.

65. Of course, for agricultural policies to be effective, they must be supported by actions in other related areas. Thus, support for training and research will also remain fundamental, since these promote the adoption of best practices and maintain competitiveness while new approaches to production are developed.

66. Support should also be provided for technical innovation in the areas of production, processing and marketing, by facilitating access to information and training through the promotion of exchanges among farmers. Thus, farmers could be provided with training and tools to use mobiles/websites for information exchange. Mobile apps are already providing farmers with up to date information on prices, buyers, sellers etc. as well input suppliers, while buyers-sellers platforms on websites are also becoming more popular.

67. Moreover, land security for family farms must be ensured through consensual reform designed to surmount current obstacles and guarantee access to land, particularly for women and young people.

68. Similarly, the effectiveness of the economic services that are essential to family farms(short- and medium-term loans, the procurement of inputs, getting products to market, processing, etc.) would need to be strengthened and improved, while ensuring that they remain stable and accessible (in terms of cost and proximity) and cover the entire range of rural activities. This requires the establishment of balanced and lasting partnerships between farmers (and their organisations) and private economic operators who intervene upstream and downstream of production. The role of these operators is essential to improving performance in the various sectors and value chains.

C. Trade and Investment

69. By definition, commodities are traded goods and therefore subjected to the uncertainties of international markets, especially since the demise of commodity protocols. While deregulation of commodity markets under the influence of the WTO has not necessarily been to the benefit of ACP producers as yet, the current quagmire of the Doha negotiations and the new paradigm being ushered by the new US administration bring additional uncertainties. These must be addressed through the multi-pronged perspective developed under the New ACP Approach.

70. Value addition, including through agro-processing, will be a central tenet of this approach. It will allow ACP commodity producing countries to move up the value chain and reduce commodity dependency. Value addition results in jobs and wealth creation, and generation of valuable foreign exchange that can be reinvested in the country, at least in part.

71. In parallel to encouraging trade in higher-value products, the New ACP approach will support diversification efforts: diversification of products through differentiation (GIs, certification etc.) as well as diversification of markets, with a focus on regional markets.

72. The emphasis on value addition and diversification will create conditions for increased investment that need to be consolidated through adequate regulatory reforms. The latter will seek to endow ACP countries with business environments conducive to private sector development, trade and investment.

73. The new circumstances of improving infrastructure and trade facilitation also generates conditions for increased intra-regional and intra-ACP trade. Promoting such trade will simultaneously consolidate regional integration, compounding the virtuous circle of harmonised regulation, enlarged markets and potential for economies of scale where these are relevant.

74. Research by the World Bank, the World Economic Forum and the international Trade Center (ITC) show that by improving trade-related infrastructure and reducing procedural bottlenecks through trade facilitation could nurture an increase in exports of up US$ 20 billion per year by 2025. The efficiency of the supply chain measured by the level of automation, borders clearance and crossing efficiency, quantity and quality of backbones infrastructure are very important and constitute constraints that should be overcome.

75. In this regard, ACP countries need to work with the private sector to reduce barriers in order to become competitive at the regional or international markets. Non-tariff barriers (NTBs) constitute the most binding constraints to agricultural trade. Several regional economic communities have introduced legal instruments to deal with NTBs in intra-REC trade. For instance in Africa, the Continental Free Trade Area (CFTA) has prioritized the elimination of inter-REC NTB through (a) establishing a mechanism for reporting, monitoring and elimination of NTBs; and (b) a complementary regulatory database and notification system of NTMs (including SPS and TBT) to facilitate intra-regional trade, for SMEs, and to promote regulatory transparency and convergence. However this is an area that has not received the level of capacity it deserves. Establishment of an all ACP support program that can document, disseminate and promote success stories and best practices would therefore be essential.

76. Furthermore establishing a consultative platform would help to organize and empower stakeholders through peer-to-peer learning among government officials, business and civil society and provide a framework for stakeholders from different sectors that are all involved in international supply chain trade to debate and cross-fertilize ideas, concepts and methods and to better understand the consequences of their mode of operation and that of other stakeholders involved in trade.

D. Mitigating Climate Risks

77. Farming is considered a risky occupation due to recurrent droughts, heavy rainfall, natural disasters, low soil fertility and poor access to markets for inputs and outputs. It is not surprising then that smallholder farmers are often deeply averse to taking risks as they cannot afford to invest their scarce resources. However, this reluctance to invest results in them being more exposed to the adverse effects of climate change. Farmers therefore need access to finance and credit to invest in new climate-smart agricultural practices and safety-net services, such as insurance, that can enable them to invest without fear of incurring future debt.

78. Nowadays, innovative approaches including index-based insurance schemes are encouraging smallholder farmers to take judicious risks to raise their production. For instance the Global Index Insurance Facility (GIIF) which was launched in 2009 has facilitated the implementation of programmes that aim at reducing the vulnerability of the ACP population to external shocks/natural disasters through the use of index insurance as a risk management tool in a range of applications, including disaster risk reduction, food security and agriculture.

79. Ultimately such systems are helping farmers move to new production systems that can meet the demands imposed by future climate scenarios.

80. Insurance policies therefore have the potential to markedly increase food production by reducing the risk farmers face from investing in inputs such as improved seeds, fertiliser and animal production. With climate change, insurance is also invaluable in protecting the food security of farming families. Index-based insurance helps farmers avoid the poverty trap.

81. Adequate insurance schemes, not only covering climate risks, may require adaptations in the regulatory framework.

V. POLICY RECOMMENDATIONS FOR CAPITALISING AND SCALING UP

82. Having identified the needs of the agricultural sector, new solutions can be proposed, based on the available political frameworks and guidelines. **Of the four pillars of intervention examined above, stakeholders agree unanimously on the overriding importance of finance** and the desirability of addressing the other three areas through an approach that also encompasses improved financial integration. The end objective is to relax the financing and corollary constraints that weigh heavily on ACP farms and prevent the modernisation of the sector.

83. It is essential to note that, owing to the specific features of agriculture in general, development in the sector requires the mobilisation of special resources. While this specific dimension has been duly noted in ACP countries, policy responses have not been appropriate.

84. Empirical studies and observations confirm that the agricultural sector in ACP countries has a hard time coping with double (2) digit interest rates. Preferential resources, such as those that the Agricultural Development Funds propose to make available to the sector in several ACP countries and regions, could enable decisive action in transforming the sector, particularly by offering single (1) digit interest rates.

85. In practice, the central banks of Ghana, Liberia, Nigeria and Uganda, for example, have put mechanisms in place, or have allocated subsidised funds to commercial banks, with a view to reducing the interest rates paid by borrowing producers, and increasing concessional resources to rural areas. Ultimately, the idea is to attract private actors to agricultural financing, in view of the constraints mentioned earlier.

86. The Nigerian approach, in particular, underscores the need for deliberate action on the part of the public authorities, and particularly regulatory bodies. In this specific case, new prudential regulations, aimed specifically at operations in the agricultural sectors, were enacted. This was part of a package of reform measures aimed at the agricultural sector which included reform of fertilizer distribution and the setting up of the Fund for Agricultural Finance in Nigeria (FAFIN) to provide financing for agro-industrial companies, especially processing units, across the entire country.

87. Considering previous failures and successes, an improved system for provision of financial services is now needed for the agricultural sector. It would include an enabling regulatory framework for microfinance and risk mitigation mechanisms such as index insurance. Also, the establishment of Credit Guarantee Funds may be supported, provided they are adequately designed so as to be both inclusive for smallholders and sustainable. Especially in combination with insurance mechanisms, these may contribute to easing the burden of collateral, especially for small farmers.

88. Based on lessons learnt from past experience, it is proposed that financing for the agricultural sector from intra-ACP resources be provided through specific structures established at the regional level. Among the lines of financing directed towards the agricultural sector, special consideration should be given to countries and regions with reduced financial access and particularly to financing for family farms.

(i) Direct access for small producers, particularly women and youth

89. In light of past difficulties and considering best practices observed elsewhere, the regional funds should put mechanisms in place to ensure a minimum level of access to family farms or groupings of the latter. Their executive boards should include producer representatives to ensure the effective implementation of such a measure.

90. Specific guidelines should be drafted to compel Regional Banks that administer regional funds to earmark a minimum percentage of their allocations for activities undertaken by family farms.

91. These guidelines should establish the eligibility requirements for applications submitted by the targeted beneficiaries. They should also specify the terms and conditions applicable to financing provided and the conditions governing the management of such financing by financial institutions and beneficiaries alike.

92. It is recommended that interest-rate and service-rate ceilings and ranges be set for operations involving small producers, in particular. To that end, a subsidised loan mechanism, partly funded under intra-ACP resources, should be put in place that would allow banks to apply rates that would enable them to achieve financial equilibrium while ensuring the profitability of the funded business.

93. The guidelines should be complemented by procedures establishing the processing cycle for each request for financing.

(ii) Direct involvement of the regional regulator

94. In view of the foregoing, the role of financial regulatory authorities at the regional level will be a determining factor.

95. New operational regulations need to be established for agricultural financing operations. Only national and regional central banks are authorised to establish such regulations, which includes amending prudential regulations for certain specific cases.

96. At national level, the Central Bank of Nigeria, and to some extent the Central Bank of Ghana, have already demonstrated the feasibility and effectiveness of such an approach. At regional level, the WAEMU authorities in West Africa or CEMAC in Central Africa, for example, should request this of the BCEAO or BEAC as well.

(iii) Increase financial sector responsiveness to agricultural financing

97. While implementing incentive mechanisms to encourage financial institutions to extend financing to family farms, it is also required to increase awareness among financial institutions, so that the specific demands of this category of borrowers are better understood and analysed.

98. If producers are not represented on the executive boards of the financial institutions, they should be regularly involved in decisions concerning financing of the sector.

99. As has already been emphasised, the scarcity of long-term savings is also a reason for the low levels of financing in the agricultural sector, especially in terms of the modernisation of equipment. It is proposed that the financial institutions concerned be able to issue 5 and 10 year savings bonds, involving resources from international donors such as Intra-ACP EDF underwritten by the State, offering reasonable yields, and tax-exempt. This resource should be used exclusively to finance agricultural equipment.

(iv) Develop capacities through a regional facility

100. One of the reasons for the prudence exercised by banks when it comes to taking risks in industrial investment projects, especially those involving the processing of agricultural products, stems from the fact that they do not possess the capacity to analyse these types of projects.

101. As such, it is proposed that a regional facility be established, through which banks and other financial institutions could finance the expertise required to analyse projects in the agricultural sector.

102. This facility should also be accessible to Farmers' Organisations (FOs) to assist them in developing their projects.

(v) Strengthen FOs management capacity through a support mechanism

103. It is also essential for Farmers' Organisations to develop capacity in project-cycle monitoring and management.

104. To assist them in this effort, and to enhance the credibility of the projects submitted, they should receive training and support through local sectoral inter-professional committees. The agricultural development funds, established precisely for the purpose of financing the provision of agricultural services to producers, must play an active role in setting up local management advisory services to strengthen the negotiating capacity of family farms and provide assistance in preparing financing applications.

(vi) Minimize the risk associated with producers' inability to manage their schedules and the conditions for getting their products to market

105. Three factors are important in minimizing the risk associated with producers' inability to manage their schedules and the conditions for getting their products to market.

106. The first involves the setting up of a regional commodities market/Exchange with repercussions at the local market level. In this regard, a specific project has been developed jointly by ROPPA and the WAEMU in West Africa. That said, the producers would have to pool their outputs and wait until they attained a critical mass before they could bear the cost of storage and processing, if any. A platform could connect practitioners and enable dissemination of success stories, knowledge exchange and peer-learning

107. The second factor involves adequacy of market infrastructure and promoting the development of processing units near production zones. States, with the support of regional institutions, mainly through the regional funds, should encourage the establishment of Rural Industrial Zones with specific benefits and support measures identified by the regional funds. The conditions governing the provision of support to industrial promoters should include the establishment of the necessary partnerships with farmer organisations. An ACP-wide program could also support dissemination of success stories, knowledge exchange and peer-learning.

108. The third includes a set of actions for increasing the competitiveness of products, such as (a) dismantling the non-tariff barriers to regional markets; (b) developing the capacity of meeting the entry requirements in international markets, (c) targeted facilitation program for cross-border and international trade of agricultural products; (d) market intelligence program to disseminate across ACP-regions best practice and success stories in agribusiness development. An element of the competitiveness agenda would be a program for advocacy and dissemination of success stories through dedicated websites and through ACP-wide conferences.

109. Ultimately, the proposal entails establishing:

- ✓ **Public Regional Fund :**
  - ➢ Acting as a catalyst for private investment
  - ➢ With a special desk for family farms and specifically targeting women and youth.
  - ➢ Involving the financial sector and its regulatory bodies, with specific rules
  - ➢ A dedicated window for non-tariff barriers to regional and international trade
  - ➢ Supporting stakeholders with dedicated resources

- ✓ **Two components :**
  - ➢ Financial Instruments
  - ➢ Institutional Support

110. It is to be stressed that the proposal aims at unleashing the potential of the private sector operating in the ACP, and not at substituting for it. Over the short to medium term, the New Approach would encourage savings at farm level, and a higher degree of risk-taking that would pave the way to more opportunities for private sector investment. At the meso level, further strengthening of producers associations will also increase their capacity to borrow on markets for their members. Finally, at the macro-level, the lubrication of financial intermediation favoured by the New Approach, should contribute significantly to generating an enabling environment for private sector investment and development.

VI. ARTICULATING NEW RESPONSES

111. In developing the new approach, it is important to ensure that measures developed are in line with the Sustainable Development Goals, the Addis Ababa Action Agenda (AAAA) on Financing for Development and Paris Agreement on Climate Change.

112. Furthermore, it is important to ensure complementarity and synergy building with existing support initiatives implemented by various regional and international institutions as well as development partners.

113. It is worth noting that the Technical Centre for Agricultural and Rural Cooperation (CTA), through its Strategy on sowing innovation and harvesting prosperity, is implementing regional business plans tailored to the particular needs of the six ACP regions: West Africa, Central Africa, Eastern Africa, Southern Africa, Caribbean and Pacific. These support regional efforts to increase agricultural productivity, build efficient agricultural value chains and markets and promote climate-smart agriculture.

114. Furthermore the Common Fund for Commodities continues supporting measures and actions targeted at improving competitiveness of commodities and building of effective and cost efficient collaboration of producers, industry, governments, civil society organisations and other stakeholders for commodity based development.

115. In terms of specificities, the projects chosen to receive support may be the result of an agreement between stakeholders in the sectors, or may be chosen on an *ad hoc* basis, depending on available opportunities.

116. It has also been noted that several ACP countries or regions already have national or regional support funds for the agro-silvo-pastoral sector or have projects along these lines. In every case, framework laws and mechanisms are either in place or envisaged, in order to enable the agricultural sector to expand.

117. The regional financing mechanism must be in line with national guidelines, while facilitators of the mechanism should also be made available at national level. Bearing this in mind, the following course of action is proposed:

    a. Establish the regional framework by adopting regional laws: ascertain compatibility with the laws governing national funds, and, as much as possible, avoid distortions of the existing ethical or non-conflicting practices.

    b. Support States in the establishment of national funds or national frameworks to facilitate the intervention of the regional mechanism.

    c. At the national level, wherever possible, place national funds under the directorship of producers' representatives.

d. Establish agreements between national structures and the regional mechanism; authorisation procedures should be in place.

e. Ensure the constant replenishment of concessional resources for the "Family Farm" Desk by allocating regional resources and contributions from development partners. It is recommended that, at the national level, regional resources should be supplemented by budgetary resources allocated to national funds dedicated to financing agriculture.

118. The ACP Secretariat will facilitate the implementation of the foregoing in close collaboration with the ACP regions. Besides mobilising financial resources and technical assistance as appropriate, it will be assigned coordination and monitoring role. The latter will ensure smooth implementation in coherence with other ACP policies, such as the one on private sector development. In addition to its coordination role, the ACP Secretariat will be instrumental as a platform enabling exchange and cross-fertilisation of experience, as implementation progresses across ACP regions and countries. It will also facilitate lessons learning from both success stories and less successful case studies.

119. This New Policy will be reviewed every three (3) years by the Trade and Commodities Subcommittee, which will make appropriate recommendations to the Committee of Ambassadors to that effect, as appropriate.

VII. CONCLUSION

120. The ultimate goal of the various support initiatives is to empower farmers so that they can participate fully in the transformation and modernisation of the agricultural sector at the regional level, market their products, increase their incomes and reduce poverty and hunger in ACP countries.

121. This requires that action be taken to remove major constraints, and in particular financial, production and supply capacity constraints.

122. Once the above proposals are effected and farmers are able to earn appropriate cash incomes from selling their produce, the risk profile of agricultural entrepreneurs in ACP Countries will improve. It will become possible to extend credit to them on a sustainable basis. Mobile banking and leveraging technology may also be able to contribute to solving market information deficiencies and delivering financial services in a more cost-effective manner. Increased competitiveness and reduced risk will make agriculture a profitable sector which will in turn attract more funding then leading to sustainable agricultural transformation with spillover to the entire economy.

123. A key element to the response is whether provision of rural finance should be on a purely commercial basis, or requires some degree of subsidy to offset the undoubtedly higher risks involved. In the early period of transformation, blending mechanisms utilizing ACP resources offer an option for consideration.

124. Nonetheless, it should be underscored that in implementing a holistic set of interventions highlighted above, public resources should prioritize what it can do best and what the market cannot provide: the provision of public goods that benefit the majority of the small holder farmers.