

Recommendations to:
The European Fund for Sustainable Development (EFSD) –
Sustainable Agriculture, Rural Entrepreneurs and Agribusiness Investment Window
March 2018

We welcome the publication of the European Commission document explaining the rationale, operation and possible policy actions in the field of agriculture under the European External Investment Plan (EIP). The below reactions and recommendations are formulated with the objective of strengthening the human rights-based approach of this investment window, and ensuring it is pro-poor and effectively contributes to smallholders' and women's economic empowerment, in line with the EFSD regulation.

While the proposed agriculture investment window contains many positive elements, several concerns remain. Despite the potential of having a larger role for the private sector in development, there are huge risks associated with mixing private finance with public development funding, including in the agriculture sector. It should not be assumed that guarantees to financial institutions or private companies motivate them to invest in projects with higher development impact (as distinct from financial impact), and it is difficult to track development results in projects that blend aid with private finance. Blending may be more suitable for emerging markets and middle-income countries (MIC), and much harder to implement in fragile states and least developed countries (LDC) as, by definition, private finance blending must go where a private financier is willing to invest; which usually requires rule-of law, functioning public institutions and infrastructureⁱ.

The operations proposed in the EIP agriculture investment window may benefit particular segments of the local population in partner countries; namely the better-off groups of farmers, primarily men, who are better equipped to adopt the kinds of innovations proposed by agri-business enterprises and who have better access to resources such as land, capital, information, and markets. However, it is unlikely that the most marginalised small-scale family farmers, especially women, will be able to benefitⁱⁱ. The fact that this instrument is in fact not primarily suitable to target the most marginalised small scale producers who have little land or other assets should be explicitly acknowledged, and complementary initiatives, including government-supported services and governance systems which ensure an enabling environment that respects the rights and needs of small-scale farmers, most often marginalized by public policies and programmes, need to be maintained and further developed to reach them. The diversity of rural societies and farmer groupsⁱⁱⁱ and their specific needs has to be recognized, and it has to be ensured that the EIP agriculture window does not further marginalize farmers living in difficult regions, or exacerbate inequalities. This is necessary to respect the commitments under the Agenda 2030 and the principle of leaving no one behind.

Key messages

We welcome the commitments:

- to contribute to making agriculture in partner countries sustainable, resilient and less vulnerable to climate change;
- to target agricultural support in partner countries to reduce food insecurity;
- to support the investment capacity of small producers and rural micro, small and medium enterprises (MSME), which are the most important private sector actors in agriculture in developing countries;
- to align the EIP operations with the 2010 EU Policy framework to assist developing countries in addressing food security challenges, which remains the policy reference for the EU's food security objectives and where the EU commits itself to defending the Right-to-Food and supporting small-scale producers;
- to integrate three dimensions of sustainable development (social, environmental, economic) in the agriculture projects that the EIP seeks to support;
- to include explicitly cooperative sector development among the areas of intervention as supporting smallholder farmers to unite and get organised is fundamental to allow them to access resources and to have a stronger voice in policy making processes;
- to respect the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries, and Forests in the Context of National Food Security (VGGT), although this commitment should be made more explicit in guiding documents regarding the EIP agriculture window.

However, we would recommend:

- to incorporate territorial markets approaches, which recognize the important role of the wide variety of markets embedded in local, national and regional food systems, in alignment with the Committee on Food Security (CFS) policy outcomes such as the recommendations on Investing in Smallholder Agriculture and Connecting Smallholders to Markets, as opposed to a unique focus on formal value chains approaches;
- in addition to the social, environmental and economic dimensions, to pay attention to the governance dimension of sustainable development (effective participation and transparency), as commanded by the Agenda 2030;
- to improve access to finance for diversified agro-ecological production, as well as processing and marketing to support farmers, including women and youth, in the transition towards agro-ecology and strengthen territorial food systems;
- to refrain from using undefined, vague, concepts such as 'climate smart agriculture'^{iv};
- to include additional indicators to monitor results and to ensure intended development objectives are reached, including smallholders' and women farmers' inclusiveness and nutrition sensitivity of investments and their impact;
- to revisit the policy actions under Pillar 3 to ensure that they are not directed towards creating an enabling environment for external investors at the expense of local producers, and include additional issues such as promoting land tenure, securing an enabling environment for smallholders to thrive, and tackling cultural and structural barriers to gender equality, including addressing policy obstacles to women's empowerment in the agriculture sector;
- to recognize the importance of promoting sustainable and diversified models of agricultural production, based on the agro-ecological model, that can ensure access to adequate diversified and nutritious foods^v;

- to ensure that only insurance companies that have divested from fossil fuels and other high-emissions sectors, and which integrate and disclose sustainability factors within their investment decision-making, are considered under the EIP;
- to promote a rights-based, equitable, effective and empowering alternative model for climate risk financing, as opposed to insurance solutions for small farmers in view of the financial risk they involve for small farmers, and their dependence on public subsidies.

Our more detailed analysis of the Commission’s document regarding the agriculture investment window is annexed herewith. We look forward to a continuous dialogue on this issue.

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ANNEX

Our comments on the 'Background analysis'

We fully support the analysis that there is a need to promote responsible investments in a higher-value agriculture; provided that the intention is to support developing countries' efforts to climb up the value chain and transform their agriculture products for local sustainable development and for food security and improved nutrition through territorial markets – as opposed to industrial crops for export.

We welcome the intention to support a shift towards a low-carbon and climate-resilient green economy and support efforts to make the agricultural sector in partner countries less vulnerable to climate change. We also welcome the focus on smallholders, cooperatives and agricultural MSMEs, as indeed they are the key actors in agricultural transformation towards improved food and nutrition security, and reduction of poverty and inequalities.

We note the possibility under the EIP to explore mechanisms to increase the availability and affordability of insurance solutions for farmers. In that regard, we would like to stress that there is a lack of evidence of climate risk insurance's equity and effectiveness for the poor and marginalised groups. On the contrary, there are indications that it may be exacerbating inequality and exposure to vulnerable situations.^{vi} Microinsurance does not work for the poorest farmers. The experience from IBLI Kenya, e.g., found that it works well for the 'vulnerable non-poor' as it helps to stop shocks (in this case drought) from pushing them into poverty. But paying premiums impoverishes the poorest. For them, social protection schemes are the way forward, which the EU can encourage with budget support.

While there are some successful microinsurance schemes (ie each farmer buys their own policy), there are many more failures. Globally, over 100 unsubsidised micro insurance schemes have failed - for a range of reasons. Any microinsurance scheme for small farmers is likely to need perpetual subsidies. The practicality of this needs to be carefully considered before setting up more pilots which subsequently fail when the subsidy is withdrawn. For index insurance (which is highly likely to be the only option for small African farmers), basis risk (the difference between actual losses, and the payout received) is likely to be a major problem. To ensure that insurance does not increase the financial risk to small farmers, a proactive approach to managing basis risk must be taken, which may include a basis risk fund.

In certain cases, insurance might be an option for the farmers that are not poor, but even in that case, there may be other solutions that are more impactful. We therefore recommend the reference to insurance solutions to be interpreted broadly, or be re-phrased as “social protection” so as to allow to promote a rights-based, equitable, effective and empowering alternative model for climate risk financing. This implies supporting development of cooperatives, backstopped by adaptive, scalable social protection systems and an equitably and predictably financed global mechanism for social protection and early response to crises. If and where insurance is deemed appropriate by developing country governments, the EU should introduce basic risk funds to ensure the poor do not lose out due to inadequacies in the monitoring and modelling used to trigger pay-outs in index-based schemes. In addition, only insurance companies that have divested from fossil fuels and other high-emissions sectors, and that integrate and disclose sustainability factors within their investment decision-making, should be accepted under the EIP.

Our comments on the 'EU Policy objectives'

We welcome the alignment of the EIP operations with existing EU policy commitments relevant to agriculture and food and nutrition security in developing countries, in particular the 2010 EU Policy framework on food security to assist developing countries in addressing food security challenges^{vii}, which enshrines a human rights approach to food security, i.e. the right to food, and has a specific focus on supporting small-scale farmers and women.

It is important to be clear about what approaches are actually supportive of the main domestic private sector actors in agriculture in developing countries – that is the farmers and MSMEs, and to listen to what they have to say about their own priorities. This has implications on what types of agricultural production approaches are supported through the EIP to promote local and regional agriculture markets. The value chain approach proposed in the EIP's agriculture window should take cognizance of the importance of supporting the so-called territorial markets, as defined by the Committee on World Food Security (CFS) in their policy recommendations^{viii}. More than 80% of smallholder farmers globally, women in particular, operate in these territorial (local and domestic) food markets where the vast majority of food consumed in the world transits. Smallholder farmers need public and private investments aimed to strengthen local processing industry, access to finance and natural resources, collective sales organization and training on sustainable and diversified agricultural practices, such as agroecology, to cope with climate change adverse impacts^{ix}. The CFS recommendations on territorial markets should be incorporated in the EIP/EFSD approach^x.

We welcome the integration of three dimensions of sustainable development (social, environmental, economic) in the agriculture projects that the EIP seeks to support. However, the governance dimension seems to be missing. Small-scale producers should not be considered as passive beneficiaries or targets of the agriculture investment window, but as agents of change in their own right who should be consulted about their needs and aspirations. Support to build their capacity to collectively echo their voice is crucial, including by strengthening smallholder farmer organisations, collectives and unions. The agriculture investment window should include consultations at national level with organisations of farmers, fisherfolk, pastoralists and women's rights groups, as well as agriculture-related local MSMEs, in order to seek their views on the areas of interventions and specific projects considered under the EIP. This can be expected to increase the quality of proposed projects and their development impact.

We deeply regret the absence of any mention of agroecology, which has been demonstrated as particularly efficient in terms of strengthening climate resilience, increases land productivity, improves nutrition security, empowers small-scale producers and reduces rural poverty.^{xi} We note the many references to "climate smart agriculture" and "climate smart production" in agriculture. However, these concepts have not been defined to provide clarity about the kind of projects that may be supported. The lack of clear criteria and definitions means that the concepts can refer also to agricultural approaches that rely on heavy use of agro-chemicals that are harmful to the environment and to sustainability of farming.^{xii} We suggest adopting a more specific framing, and including agroecology in the recommended approaches to guide the EU development cooperation. We also encourage the European Commission to adhere to the main principles underpinning agroecology: recycling nutrients and energy on the farm, rather than relying on external inputs, promoting diversity by integrating diverse crops and livestock; minimizing losses of solar radiation, water, and nutrients; diversifying species and genetic resources in agro-ecosystems; and focusing on interactions and productivity across the agricultural system, rather than focusing on individual species^{xiii}. Following the position paper by CONCORD^{xiv}, we recommend using the EIP to improve access to

finance for agro-ecological production, storage, processing and marketing to support farmers, including women and youth, in the transition towards diversified agro-ecological systems.

Our comments on the ‘Operational Concept’ and the indicators

We welcome the explicit inclusion of cooperative sector development among the areas of intervention, not only to mutualise risks, but also as a way to address the power imbalances in agriculture value chains, dominated today by powerful agribusiness companies.^{xv} This huge power imbalance, exacerbated by the growing number of mergers and acquisitions in the food, beverage and agri-business sectors, should be acknowledged as a major risk to the economic, environmental and social sustainability of the sector, and inform the approach in the EIP agriculture window. We note, however, that the reference should be not only to cooperatives but also generally to the range of self-organized producer-led associations. The document should state clearly that resources will be reserved for proposals submitted by self-organized producer-led association and cooperatives.

In that regard, we welcome the commitment that project proposals under the EFSD will have to consider a fair repartition of costs, risks and benefits between the various parties associated in the operation, and consider that what “fair repartition” means should be further clarified. We also welcome the indication that ‘the level of coverage provided to individual operations could be differentiated to reflect a focus on the disadvantaged, the young and women, or certain geographic areas which are considered more difficult to serve’ and would appreciate details on what this will entail.

We note that there is no reference in the Commission’s document to the governance and accountability dimensions of the EIP or to mechanisms that are adopted for the preparation, appraisal and approval of projects. This is a fundamental weakness to which we have referred in our overall comments on the EIP. We also note no reference to the necessary coherence of EIP-supported initiatives with democratically determined national and regional agriculture and food security policies and investment programmes in partner countries.

We are astonished that indicators listed in Annex 2 will only apply “when relevant”, and request to have more clarifications on this point. Furthermore, Annex 2 in its current form is insufficient to track whether the agricultural investment window of the EIP will be successful in reaching its envisaged impacts and whether it will contribute to achieving the SDGs as outlined in the policy rationale. The indicators are almost exclusively dedicated to measuring the impacts on production and job creation. They should, however, also measure the broader developmental impact of funded investments. Similarly, the indicators do not cover resilience with regard to climate change. It is crucial to measure not only on the *quantity* of production, but also the *quality*. Agricultural initiatives promoted through this window should ensure sustainable and diversified production, that can ensure access to adequate local and traditional foods and seeds with high nutritional value.

Currently, the three pillars of the analytical tool ‘Value Chain Analysis for Development’ (VCA4D) are inadequately translated into the EIP indicators. The VCA4D provides a basis to analyse the performance of value chains and should be utilized in the evaluation of EIP operations and outcomes. In addition, we recommend that the VCA4D and the EIP indicators take into consideration also the governance dimension of sustainable development, which is currently largely absent.

Moreover, a ‘yes or no’ measurement for due diligence reports of projects that affect land rights is unlikely to properly safeguard communities against harmful impacts. A preliminary risk analysis should be

conducted before proceeding with a project in order to identify, prevent, and mitigate potential harmful impacts. This should be followed by a comprehensive due diligence process. Due diligence reporting based on the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT) should be a requirement rather than an output indicator. The same applies for obtaining Free, Prior and Informed Consent (FPIC) and conducting gender impact assessments.

Some suggestions for additional key indicators are (list not exhaustive):

- Number of beneficiaries with improved access to and control over land;
- Number of beneficiaries lifted out of undernourishment and malnutrition;
- Number of farmers witnessing increased resilience against climate shocks;
- Number of farmers trained with climate resilient/agroecological technologies and practices;
- Number of farmers that adopted climate resilient/agroecological technologies and practices;
- Number of people with increased access to safe water and sanitation;
- Number of local authorities, extension workers and universities directly supporting the implementation of agroecology initiatives;
- Number of smallholder farmers organisations, self-help groups, farmer unions, and cooperatives directly involved on the implementation of climate resilient/agroecological technologies and practices;
- Quality of food security and nutrition investment strategies and policies, based on human rights standards and principles, including non-discrimination and equality (including gender), meaningful participation of small-scale food producers organisations, transparency and accountability;
- Diversity of food produced on-farms.

The framework of indicators of the EIP should be able to monitor progress in achieving the SDGs. The proposed indicators above, for example, are connected to the indicators SDG #1, #2, #5, #6 and #15. Similar to the SDG indicators, the indicators of the EIP should be disaggregated, where relevant, by income, sex, age, race, ethnicity, disability and geographic location, or other characteristics.

We note that additional indicators will be agreed at the level of specific proposals and look forward to our suggestions being taken on board in that regard.

[Our comments on the ‘Supporting policy actions’ \(cf. Pillar 3\)](#)

Under Pillar 3 (improving the business and broader policy environment), it is unclear on whose terms and conditions the business and policy environment is to be advanced. The supporting policy actions are different if aimed at facilitating international rather than local business, or targeting large corporations rather than MSMEs; as their needs are very different. It should be ensured that policy actions are not directed towards creating an enabling environment for external investors at the expense of local producers.

Also, the proposed list of “most relevant policy actions” is desperately missing crucial issues, that are pre-conditions for any investment in agriculture to deliver for people living in poverty in partner countries. In particular, we look forward to contributing to further discussion on these points:

- **The role of farmers’ organisations and local MSMEs, cooperatives and social enterprises** in the agriculture-related sectors in policy discussions, and the need to consult them about their needs

and aspirations, is not evoked, reflecting a top-down approach as opposed to a human rights-based approach incorporating development effectiveness principles.

- The proper implementation of the VGGTs in order to **protect local communities, including women, against land grabbing** by domestic and foreign investors and other powerful groups is not sufficiently considered. Women’s access to and control over land should receive special attention in this context.
- Technical support to the extension of national labour laws to all rural workers, in line with ILO international standards, and provision of adequate resources for rural labour inspection.
- Apart from few generic references to **gender equality**, there is no mention of the specific challenges women face in agriculture, nor anything proposed to specifically address them. The window should explicitly aim to **contribute to SDG #5 on “Achieving gender equality and empowering all women and girls”**, which implies tackling cultural and structural barriers to gender equality and addressing policy obstacles to women’s empowerment in the agriculture sector¹. Operations and investments covered by the EFSD should take measures to promote equal rights and opportunities for women in agriculture, including land rights, access to finance, technology and other inputs, and working conditions. Furthermore, investors should ensure the meaningful participation and representation of women in consultations and negotiations.

Despite the prominent role of women in agriculture, gender inequality is evident in various dimensions of agriculture, including land tenure security, access to productive resources, access to marketing opportunities, unpaid work, working conditions, and decision-making power, among others.^{xvi}

Apart from being a social justice and human rights issue in its own right, gender inequality leads to underperformance in the agricultural sector. According to the FAO^{xvii}, equal access to productive resources would increase agricultural output by an estimated 2.5 to 4 percent, and would consequently lift more than 100 million people out of poverty. Gender inequality in agriculture means that the majority of smallholder farmers are simply not benefiting from policies designed to support their engagement.

- The appraisal process of new potential investments under the EIP should include a thorough gender assessment. Technical assistance under Pillar 2 could be used to help investors and fund managers understand the importance of including women in agricultural value chains. Counterparts should monitor gender impacts on an ongoing basis. This includes consistent reporting on indicators using gender-disaggregated data. Using the “Reach/Benefit/Empower” framework by project designers, funders, implementers and evaluators would help ensuring women don’t just benefit from EIP projects, but are ultimately empowered by at least some of those projects.^{xviii}

Endnotes

- ⁱ Private-finance blending for development. Risks and opportunities. Oxfam (2017), <https://www.oxfam.org/en/research/private-finance-blending-development-risks-and-opportunities>; and Mixed messages: the rhetoric and the reality of using blended finance to 'leave no-one behind'. Eurodad (2017), <http://www.eurodad.org/files/pdf/1546844-mixed-messages-the-rhetoric-and-the-reality-of-using-blended-finance-to-leave-no-one-behind--1511464491.pdf>.
- ⁱⁱ Investing in smallholder agriculture for food security. CFS HLPE (2013), <http://www.fao.org/3/a-i2953e.pdf>; and Connecting smallholders to markets. CFS policy recommendations (2016), <http://www.fao.org/3/a-bq853e.pdf>.
- ⁱⁱⁱ Tipping the Balance: Policies to shape agricultural investments and markets in favor of small-scale farmers. Oxfam (2012), <https://policy-practice.oxfam.org.uk/publications/tipping-the-balance-policies-to-shape-agricultural-investments-and-markets-in-f-254551>.
- ^{iv} Climate Smart Agriculture: Frame it or leave it! A revealing plunge into projects labeled "Climate Smart Agriculture" and their inner workings. Action contre la Faim (2017), http://old.actioncontrelafaim.org/sites/default/files/articles/fichier/rapport_gacsa_acf.pdf; and "Climate Smart Agriculture" causes confusion. Action Aid (2017), http://www.actionaid.org/sites/files/actionaid/climate_smart_agriculture_confusion_4pages.pdf.
- ^v From Uniformity to Diversity, A paradigm shift from industrial agriculture to diversified agroecological systems. IPES Food (2016), http://www.ipes-food.org/images/Reports/UniformityToDiversity_FullReport.pdf.
- ^{vi} The wrong model for resilience: How G7-backed drought insurance failed Malawi, and what we must learn from it. Action Aid (2017), <http://www.actionaid.org/publications/wrong-model-resilience-how-g7-backed-drought-insurance-failed-malawi-and-what-we-must-l>.
- ^{vii} COM(2010)127 final, "An EU policy framework to assist developing countries in addressing food security challenges", <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52010DC0127&from=EN>.
- ^{viii} [Connecting smallholders to markets. CFS policy recommendation, http://www.fao.org/3/a-bq853e.pdf.](http://www.fao.org/3/a-bq853e.pdf)
- ^{ix} Investments in small-scale sustainable agriculture. More and Better (2017), https://ag-transition.org/wp-content/uploads/2017/02/Investments_in_agriculture_MaB_WEB.pdf.
- ^x Connecting smallholders to markets. CFS policy recommendations (2016), <http://www.fao.org/3/a-bq853e.pdf>.
- ^{xi} See for example: Report to the United Nations General Assembly A/HRC/16/49, by the Special Rapporteur on the Right to Food, Olivier de Schutter (2010), http://www.ohchr.org/Documents/HRBodies/HRCouncil/RegularSession/Session19/A-HRC-19-59_en.pdf; Scaling-up Agroecological Approaches: What, Why, and How? Discussion paper by Oxfam Solidarity (2014), http://www.fao.org/fileadmin/templates/agphome/scpi/Agroecology/Agroecology_Scaling-up_agroecology_what_why_and_how_-OxfamSol-FINAL.pdf; and Agro-ecology to strengthen resilience, Policy Brief. CONCORD (2017), https://concordeurope.org/wp-content/uploads/2017/09/CONCORD-Brief-on-Agro-ecology-and-Resilience_Sept.2017.pdf?7c2b17&7c2b17.
- ^{xii} "Climate Smart Agriculture" causes confusion. ActionAid (2017), <http://www.actionaid.org/publications/climate-smart-agriculture-causes-confusion>.
- ^{xiii} See for example: Agroecology for Food Security and Nutrition. Proceedings of the FAO International Symposium 18-19 September 2014, Rome, Italy, <http://www.fao.org/3/a-i4729e.pdf>.
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- ^{xv} Too big to feed. Exploring the impacts of mega-mergers, consolidation and concentration of power in the agri-food sector. IPES-Food (2017), http://www.ipes-food.org/images/Reports/Concentration_FullReport.pdf; and Agrifood Atlas. Facts and figures about the corporations that control what we eat. Heinrich Böll Foundation, Rosa Luxembourg Foundation, Friends of the Earth Europe (2017), http://www.foeeurope.org/sites/default/files/agriculture/2017/agrifood_atlas.pdf.
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^{xvii} The State of Food and Agriculture 2010-11. Women in Agriculture: Closing the gender gap for development. Food and Agriculture Organization of the United Nations (2011), <http://www.fao.org/docrep/013/i2050e/i2050e.pdf>.

^{xviii} Do agricultural development projects reach, benefit or empower women? Expert paper by Ruth Meinzen-Dick et al, International Food Policy Research Institute (IFPRI) (2017), <https://www.ngocsw.org/wp-content/uploads/2017/10/Do-agricultural-development-projects-reach-benefit-or-empower-women.pdf>.