



ALL ACP AGRICULTURAL COMMODITIES PROGRAMME

Newsletter No. 13

September 2011

ESA Agricultural Sectors Exposed to Market-based Risk Management Instruments

Introducing and spreading the use of market-based risk management instruments in the commodity sectors has been one of the main AAACP areas of interventions. Overview of the Programme RM support in the region.

Assessments of risk and vulnerability within national agricultural supply chains have been conducted in Mozambique (cotton), Uganda (coffee) and Kenya (horticulture). These have essentially focused on (i) the type of risks; (ii) the level and frequency of exposure; (iii) the severity of potential losses, and (iv) risk management solutions for individual participants or subgroups within the chain.

A study was also launched to assess the feasibility of formal and informal price risk management mechanisms, including improved policy interventions, working capital guarantees and export credit insurance, in the cereal sectors of ESA. The impact assessment focusing on Kenya, Tanzania and Uganda has been completed and presented during a workshop.

As regards **Weather Risk Management**, focus was set on three main areas: (i) Assessment of feasibility and possible piloting of agricultural insurance products; (ii) Country-level weather risk mapping to identify major weather risks, and assisting governments in designing a risk management strategy for agriculture; (iii) Technical support was given in structuring of sovereign-level, agricultural risk transfer products. All activities in Malawi are completed while they are still ongoing in Kenya and Mozambique.

Price Risk Management included technical advisory assistance provided to the Government of Malawi in the area of Commodity Policy risk management, particularly on the design of a risk management framework and the corresponding institutional settings for following up price trends for key agricultural commodities.

A number of **modular training courses** were developed and delivered to agricultural sectors across East Africa. Working with the EAFCA, nine training workshops were held for East African coffee traders, whereas training on designing index based agricultural weather insurance was provided to insurance and meteorological agencies. Trainers from Kenya College of Insurance were trained in a training-the-trainers approach. The training courses for the region covered also the cotton sector, in partnership with the ICAC and the ACA.

The AAACP launches its dissemination tour in Eastern & Southern Africa

The EU-funded All ACP Agricultural Commodities Programme (AAACP) holds a dissemination workshop on 19 & 20 September 2011 at the *Sarova Panafric Hotel, Nairobi* for the Eastern and Southern Africa (ESA) region. This workshop will be the opportunity to present the Programme results but also to convince funding agencies/donors and development partners of the relevance of pursuing and/or replicating pilot interventions implemented under the AAACP.

In Eastern & Southern Africa, the Programme focused mainly on agricultural sectors including cassava, coffee, horticulture and cereals. Sectoral Strategy development & implementation, capacity-building in support to agricultural producer organizations, access to innovative financing mechanisms and



East African Tea picker

(To be continued on page 3)

Capacity-Building of Producer Organisations: The “Inclusive Business Model” Approach

IBM and VCA

Increased attention is being paid in recent years to strengthening smallholder-market linkages. Many of these initiatives have adopted the value chain approach (VCA). Based on the principle of promoting competitiveness, the VC approach improves collaboration and trust by looking at the dynamics of the interrelationships among actors within a chain. Working within the framework of the value chain, the inclusive business models (IBM) approach focuses on the analysis of the inter-organizational linkages between the producer and the immediate buyer. The latter can be a processor, trader, wholesaler or supermarket. Similar to the value chain approach, the analysis helps to understand where value can be added, costs reduced and efficiency improved. However, the business model approach focuses on two specific players, one of which is the less endowed and weaker member of the chain.

Methodology

Under the AAACP, the approach aims to support organized farmer groups mainstream business thinking among their organizations. The approach helps farmer groups to define how they do business with their customers based on a better understanding of buyers' requirements. The methodology includes a diagnostic appraisal to understand how business is or is not being carried out, and focus group meetings to identify the success factors that are critical for improving commercial ties between farmer organizations and buyers. The identification of the critical success factors guides the farmer organizations in the prioritization of activities.



Zambian Cassava Women Producers

The methodology includes a diagnostic appraisal to understand how business is or is not being carried out, and focus group meetings to identify the success factors that are critical for improving commercial ties between farmer organizations and buyers. The identification of the critical success factors guides the farmer organizations in the prioritization of activities.

The Outcome

Based on the diagnosis, focus group meetings and, if relevant customer surveys and/or market studies, an UP-GRADED BUSINESS MODEL is developed.

(From page 2)

Essentially, the upgraded business model combines the important activities of procurement, marketing, sales, finance, strategy, production, post-harvest, logistics, management, human resources and capacities etc., in a framework which provides the tools to strategically react to internal and external dynamics. It empowers the organization to respond in line with its purpose rather than adopting crisis management or reacting on an ad-hoc basis.

Constant revision and, indeed, upgrading of a business model, is crucial if a farmer organization is to become and remain competitive. To that end, smallholder-based groups need to understand agribusiness trends and buyers' requirements. They must plan strategically, innovate and differentiate products and services according to those requirements.

Results under the AAACP

In the Eastern and Southern Africa (ESA) region, the AAACP has used the approach to support farmer organizations in Kenya, Zambia and Malawi. Sectors that have benefited from support are the cotton and cassava value chains.

In Kenya, support resulted in the development of practical tools to strengthen producer-ginner linkages. The final report has recommended that future support target strengthening the weak partnerships with the private sector through joint ventures, identifying direct investment opportunities for SME's in the sector, and capitalizing on new initiatives such as the Cooperative Private Partnerships.

In the Zambian cotton sector, the business model appraisal identified a credit scheme to support smallholder access inputs independently from cotton companies. FAO technical feedback however emphasized the high risk that smallholders would face in breaking input supply contracts with companies. Support will now focus on capitalizing on the existing relationship with ginneries. For the Zambian cassava sector, the IBM approach continues to contribute to consolidating linkages between farmer groups, processors and industrial buyers.

(Source: Draft FAO Technical Note)

risk management will illustrate AAACP support in the region.

Given the proposed agenda and objectives, the workshop will gather representatives from funding agencies, regional banks and economic communities, bilateral cooperation agencies, private donors as well as regional and national authorizing officers. Participants will also include beneficiary value chain stakeholders whose testimonies will enrich discussions.



Kenyan Florist in his plot

Such a rich panel will definitely raise the level of interactions in view of identifying and developing synergies and partnerships for potential follow-up of the AAACP work to the benefit of Eastern & Southern Africa region.

* * * * *

Some of the lessons learnt include:

Supply Chain Risk Assessments : Conducting SCRA's enable all risks to industry stakeholders to be understood and prioritized, thus assisting stakeholders in better targeting risk management activities. It also facilitates improved dialogue between sector participants. Such dialogue has the potential of leading to collective action between stakeholders to improve risk management.

Weather risk management: Insurance is only one part of a complete RM framework. Thus, it should be integrated into a broader RM framework, which might include: risk mitigation, risk transfer (insurance), and risk coping after natural disasters. Index-based weather index insurance is proving hard to sell at the farmer level. Such insurance is more attractive when it is designed at an aggregate level (i.e. bank portfolio, commodity boards, membership-based cooperatives, clients of a fertilizer distributor, etc).

Price Risk Management: Improved government understanding of international and regional price volatility, which impacts on local market prices, can assist governments in monitoring price movements in key commodities enabling early identification of future issues and earlier action to be taken, when appropriate.

AAACP funding has helped in improving the understanding of agricultural risks, and in the piloting of risk management solutions. However there remains a large gap in fully cementing knowledge, in up-scaling pilots, in sharing learning, and in transferring capacity to many countries of the region. This gap becomes more evident with recent increases in the volatility of weather and agricultural commodity markets.

(Source: WB-ARMT: Brief on Risk Management in ESA)

This publication has been produced with the assistance of the European Union. Its content is the sole responsibility of the Coordination Unit and can in no way be taken to reflect the views of the European Union or the ACP countries.



ALL ACP AGRICULTURAL COMMODITIES PROGRAMME

www.euacpcommodities.eu



An initiative implemented by:



Coordination Unit :

c/o Cardno Emerging Markets, Belgium s.a.
Avenue Louise, 479 (Box 53) – B 1050 Brussels – Belgium
Tel : +32 (0) 2 282 03 33. Fax : +32 (0) 2 290 15 53