

Bananas: special framework of technical and financial assistance for traditional ACP suppliers

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This document represents a Communication from the Commission giving the biennial report on the Special Framework of Assistance (SFA) for traditional ACP suppliers of bananas. It is recalled that banana imports in the EC have traditionally been regulated by a quota-system with strong preferential treatment for bananas from Africa, the Caribbean and the Pacific (ACP). There were several disputes on this matter in the 1990s and early 2000s. Various changes were then made to the quota system (in 1998 and in 2001), which was finally replaced by a tariff-only system starting from 1 January 2006.

In order to help the twelve traditional ACP banana suppliers in coping with the modifications to the trade arrangements, a Special Framework of Assistance (SFA) was put in place in 1999, financed by a dedicated budget line.

This framework provides technical and financial support for specific projects presented by the countries concerned, based on a long-term strategy previously agreed with and approved by the Commission. The individual country allocations are calculated on a yearly basis, taking into account two criteria, namely the competitiveness gaps observed in comparison with third country suppliers and the importance of banana production to the economy of the ACP country concerned. The annual budget has gradually decreased from EUR 44.5 million in 1999 to EUR 30.7 million for 2006. Between 1999 and 2003 the allocation key was conceived in such a way as to provide more support to those countries suffering from a larger competitiveness gap and with a higher share of the banana sector in total GDP. As of 2004, a maximum reduction of 15% has to be applied to national allocations in performing the calculations, the rate being lower for those countries that have achieved competitiveness gains.

In 2005 and 2006 the budget line amounted to EUR 34.5 and EUR 30.7 million, respectively. As regards the competitiveness gap, an evaluation concluded that the choice of CIF prices as a tool to measure competitiveness has drawbacks, in that it does not necessarily fully reflect the competitiveness gap between the ACPs and the Most Favoured Nation (MFN) suppliers.

Improving Competitiveness: projects targeting the competitiveness of banana exporters have continued in those five countries that supported this objective during 2002-2004. For 2005 and 2006, these programmes include the renewal of plantations in Belize, Cameroon, Jamaica and Suriname. In Jamaica plantations were severely hit by hurricanes in both 2004 and 2005. In Belize, Jamaica and Suriname new varieties of bananas that are more resistant to diseases such as Black Sigatoka, are being introduced. The programmes also include investments to acquire EUREGAP and/or ISO 14001 quality certification in Belize, Cameroon, Ivory Coast, Jamaica and Suriname. Although programmes supporting the competitiveness of banana exports took up almost 50% of the available allocation in 2005; the figure fell in 2006 to 39%, which is similar to the percentages for the period from 2000. All of the five countries supporting this objective have been able to maintain or increase the quantities of bananas exported to the EC during the period 2003 to 2006.

Diversification: the diversification objective was opted for by seven countries in 2005 and 2006 (Cape Verde, Dominica, Grenada, Madagascar, Somalia, Saint Lucia, and Saint Vincent and the Grenadines). These countries have either stopped exporting or seen their banana exports substantially reduced between 1990 and 2000. None of them have been able to recover markets during the period 2003 to 2006. The

activities planned cover a wide range of economic sectors and types of investments, but all aim to provide (ex-) banana farmers and workers access to alternative sources of income. The programmes also have a longer duration, typically four to five years, as they take longer to achieve their full impact.

Commitments and Disbursements: overall the implementation of the programmes remains delayed. Only 48 % of all funds allocated have been committed to works, supplies, and service or grant contracts and only 35% have been disbursed. For the programmes decided between 1999 and 2005, therefore, some EUR 150 million remain to be contracted (RAC) and some EUR 186 million remain to be disbursed (RAL). The Commission expects to be able to recover some of the lost ground in the coming two years. In the evaluation of the SFA, the comparison of the financial execution of diversification and competitiveness activities in terms of speed shows that the latter have done better. The analysis of programme execution to date shows that the long-term efforts required from the banana sector do not sit easily with the requirement under the Council Decision to have the support programmes decided annually. In addition, the need to adjust the programme modalities after the introduction of the new Financial Regulation has temporarily curtailed the activities and therefore the impact of the programmes. However, most operational problems encountered did find a solution in 2005. This contributed to the strong acceleration of the programmes in 2006.

The paper discusses **the impacts of the SFA on the banana sector** in each country. In those countries where, for the period preceding SFA investments, the banana sector had grown or was stable, the SFA has had an impact in strengthening productivity and efficiency and reducing cost. It points out that in the Windward Islands, after an initial focus on programmes partially aimed at enhancing the competitiveness of the banana sector, there has been a progressive shift to projects clearly oriented towards diversification. Although the weaknesses of the Windward banana sector and the increasing level of competition on the EC market were probably underestimated when the initial strategy was drafted, this change has been the result of a gradual awareness in the Windwards of the need to change the thrust of economic development in the islands. However, despite its general decline since the 1990s, the Windward banana sector remains present on specific EC markets. A key element of this relative success of the Windward Islands strategy for their banana sector has been its orientation towards the fair trade market. Although the SFA has supported the banana sector in general, so far no project has been put forward to directly support that aspect of their strategy.

Conclusions: in its analysis of the state of play with the implementation of the SFA, the Commission recognises the difficulties encountered in the implementation of this instrument. However, most of the operational problems encountered in relation to the Financial Regulation were resolved in 2005, which has contributed to the strong acceleration of the programmes in 2006. Given the complexity of the scheme and the constraints faced by most beneficiaries, **the recommendation is to reinforce assistance both for the technical bodies in charge of implementation at local level and for the final recipients.** Such technical support has to focus on administrative and procedural problems and obviously requires highly qualified expertise. As regards the allocation of the budget between beneficiary countries, the evaluation highlights the drawbacks of using CIF prices to measure the competitiveness gap. However, as the SFA will in any event come to an end in 2008, it is not in the interest of good administration to consider any change in this area at this point in time.

Finally, in terms of impacts of the SFA on the socio-economic situation of the banana sector and the countries concerned, the evaluation showed that it is still too early to measure the impacts of SFA on the diversification of the economies concerned. The impact was generally satisfactory for programmes targeting the banana sector where the conditions for its competitiveness were reasonably favourable. However, the SFA could also draw lessons from other relatively successful experiences, such as the Windward conversion to the fair trade market, as an opportunity for smaller-scale enterprises to survive in global market competition.