

CEE Bankwatch Network comments on the draft EBRD Agribusiness Strategy

General comments

Bankwatch welcomes the revision of the EBRD's agribusiness strategy and the attention paid to environmental and social issues in the document. Given agriculture's significant environmental and social impacts it is of utmost importance that these are fully integrated into projects in this sector, as the policy proposes. We would however like to comment and raise questions on some issues that we believe the draft policy has not addressed.

The major question that we believe needs further examination in the strategy is: **“What kind of transition is desirable in the agribusiness sector?”** Reading the draft strategy, the implied definition of transition in this sector is “transforming the transition countries' agribusiness sectors to be like Western ones”. However Western agribusiness sectors, while offering advantages such as the large quantity of food produced, are to a large extent environmentally unsustainable and will themselves need to undergo large changes in the coming years.

The food production, processing, distribution and retail system in Western countries is based on cheap oil-fuelled transport and use of significant quantities of energy for agrichemical production. There is wide recognition that hydrocarbon prices are likely to rise and suffer from volatility during the coming years¹ and the rapidly rising greenhouse gas emissions from transport² also make it imperative to adopt stringent policies to reduce transport demand, as the necessary reductions cannot be made through technological advances alone. The EBRD needs to take into account what this means for the partly export-led and transport-intensive model of agribusiness it is promoting.

Some of the apparent strengths of Western food production are misleading. While food seems cheap in the shop, it costs the public dearly, paying once for the food itself, again for farming subsidies and yet again for the externalised environmental costs. Usage of agrichemicals - even if relatively efficiently - is degrading soil and polluting water supplies. Industrial farming methods have led to vulnerable monocultural agriculture and the nutritional value of fruit and vegetables appears to have decreased during the last few decades³, presumably as a result of the use of agrichemicals and the selection of varieties for qualities such as ease of transportation and uniformity rather than nutritional value. Many small and family farms have gone out of business due to excess buyer power of larger agribusiness companies.⁴ Biodiversity on farms has decreased as a result of mechanisation and has required special incentives to re-instate features such as hedges and trees.

Pages 13 and 27 of the draft strategy address some of these issues but do not state how the EBRD will contribute to maintaining the diversity of agricultural varieties in current production through its projects. Given the process of uniformisation implied by much of the strategy, particular attention should be paid to this area.

Transition aims for agribusiness operations during the previous period did not appear to take these weaknesses of current Western models into account: *“In terms of transition objectives pursued by Agribusiness projects, almost three-quarters of operations focus on “market expansion”, emphasising the Bank's mandate through the stimulation of competitive behaviour through the*

¹ See for example the International Energy Agency's World Energy Outlook 2009 factsheets: <http://www.worldenergyoutlook.org/>

² See for example the European Environment Agency's TERM02 report, April 2009: http://themes.eea.europa.eu/IMS/ISpecs/ISpecification20080704102557/IAssessment1226434796626/view_content

³ See for example research by Donald R. Davis, Journal of HortScience, February 2009, <http://usfoodpolicy.blogspot.com/2009/01/evidence-on-declining-fruit-and.html>

⁴ For example between 2005 and 2006, the USA lost 8 900 farms (a little more than 1 farm per hour) - USDA National Agriculture Statistics Service, “Farms, Land in Farms, and Livestock Operations”. USDA, 2007

project entity's interactions with suppliers (i.e. backward/upstream linkages) and clients (i.e. forward/downstream linkages), as well as its contributions to the integration of economic activities into the national, regional or international economy. As shown in the graph below, other important transition objectives pursued are "competition", "restructuring" and "corporate standards" which are encompassed in almost 30% of all projects". (p.17)

It is already high time for important changes to take place if the transition to a more localised food economy is to take place in a co-ordinated manner rather than through price shocks causing social and economic upheaval and hardship. What may seem like a niche market in Western countries at the moment needs to be rapidly developed to ensure that local production and consumption systems function competitively as soon as possible.

Recommendation: The draft strategy needs to outline how it will take into account likely future rises in oil and gas prices and the pressures this will cause to reduce transportation of agricultural products.

Recommendation: The draft strategy needs to state how the EBRD will contribute to ensuring the maintenance of diversity of agricultural varieties through its projects.

Specific comments

2.2 Transition challenges by sub-sector

2.2.1 Food supply, retail and distribution

p.19 "Transition challenges across the Region in downstream food supply relate mostly to a lack of competition and high administrative barriers for new entrants that prevent distribution, wholesale and retail markets from functioning efficiently (particularly in less advanced countries). Furthermore, adequate produce traceability, quality control, and hygiene and food safety standards constitute challenges for the downstream industries across the Region. These challenges lead to an inadequate level of access to high quality food at affordable prices especially in remote areas."

"However, there are still many lesser developed regions and countries which have still not been reached by either international or domestic modern retailers. This is particularly true for ETC countries and some countries in the Western Balkans (namely Bosnia and Herzegovina and FYR Macedonia)."

We only partly agree these are the most pressing transition priorities. While administrative barriers for small businesses are unacceptable in most of the countries and certainly need to be addressed, the emphasis on modern retail as a guarantor of quality and traceability is too prescriptive and does not take into account the differences in the region and the strengths of the existing food production systems in some of the countries.

Particularly in the smaller countries, local food markets and existing diverse local products ensure a high degree of automatic traceability and transforming these into a retail system involving long-distance transport may simply make this less so, while the uniformity requirements of supermarket chains may simply put smaller producers out of business. There is indeed scope for hygiene inspectorates to be strengthened, however it is important to ensure that the burden on small producers is proportionally minimised.

As pointed out above, we would point to a need to develop a vision of a low-carbon agribusiness sector in the EBRD's region of operation and incorporate the stages for such a transition into the EBRD's sectoral strategy, as a market transition alone will leave the region ill-equipped for a world of increasing energy prices.

Recommendation: To keep the removal of barriers for small businesses as a priority, but to show how the EBRD will contribute to developing an agribusiness system that preserves existing local and diverse production and does not lead to great increases in food transportation.

3. Strategic objectives and priorities

3.1 Key transition objectives

p.24

- "(...) This equates to direct support for large primary agricultural operations and can extend*

to commodity traders that inject much needed capital into the sector through established backward linkages to the farming sector. Such investments will be approached cautiously, with a view of both individual and portfolio risk. (...)

- *The Bank can be instrumental in providing farms with modern technology and inputs, including seed multipliers, fertilisers and machinery with the support of foreign equipment manufacturers and suppliers, thus addressing the sector's need to replace outdated farming technologies with more efficient equipment thereby increasing harvesting yields.*
- *The Bank can support important capital expansion projects at farm level when integrated in a structured financing approach with a financially sound sponsor capable of implementing modern farming techniques."*

Recommendation: As agriculture is a significant source of employment in the region, the EBRD needs to ensure that it pays adequate attention to supporting small producers, which generate proportionally more employment than large ones. Efficiency gains resulting in decreased agricultural employment need to be offset by other employment opportunities if the bank is to have an overall positive impact. Particular care needs to be paid to the impact on women, considering their high participation in the agricultural workforce.

p.25 "The Bank will also support investments in high quality packaging equipment and material, ensuring higher hygiene and product shelf-life, in order to increase food quality and availability."

Recommendation: The EBRD needs to make clear how it will work to ensure the minimisation of packaging use and waste in its projects, especially considering that most of its countries of operation have very undeveloped waste management systems.

p.25 "In food supply, retail and distribution, the Bank will aim to play an important role in supporting the roll-out of modern format food retail chains in rural areas and hypermarkets/malls in suburban areas of large cities, thereby increasing the accessibility of affordable, locally manufactured and packaged food products of superior quality for wider parts of the population and promoting good labour standards and working conditions in the sector."

In our opinion EBRD support for hypermarkets is an unwise use of public money, both from the point of view of added value - since the private sector ought to be able to finance such investments itself - and from the transportation and urban planning point of view. Such construction - even with measures such as courtesy buses - tends to generate a large amount of private car transport and contribute to urban sprawl.

Recommendation: The EBRD should not use scarce public money to support hypermarkets or shopping malls.

Recommendation: In central Europe the EBRD must not support agribusiness companies with an already high market share. For example, although retail concentration levels are not at western European levels, it is crucial for consumer choice that they are not enabled to reach such levels.

p.27 "In the context of the EBRD's Gender Action Plan, the Bank has initiated a number of pilot projects in banking sectors, including Agribusiness, to integrate gender issues. The aim of the pilot projects in Agribusiness is to identify and encourage clients to adopt gender balanced approaches in their human resources policies and practices (such as work-life balance, flexible working hours, family friendly initiatives, etc). The intention is to inform the Board and external stakeholders regularly on progress made"

We very much welcome the EBRD's Gender Action Plan and the planned pilot projects. We understand that the bank's project screening criteria on gender issues are still under development however an indication of the gender factors that will be examined during project appraisal for agribusiness projects would be welcome in the strategy, given the large socio-economic importance of the sector.

Recommendation: To identify in the strategy the gender issues to be examined during appraisal of agribusiness projects.