

Comments on the draft EBRD Agribusiness Sector Strategy

The Draft EBRD Agribusiness Strategy (further Strategy) intends to anchor to the EBRD's "...six transition qualities with the following key areas of focus:

- enhancing productivity and value addition (competitiveness);
- sustainable agribusiness (green);
- inclusive value chains (Inclusive);
- strengthened market links (integrated);
- innovative and affordable financing (resilient);
- and improved business conduct and standards (well-governed). [...]

A strong, sustainable and inclusive agribusiness sector needs to encompass farmers and companies of all sizes along the entire food value chain. The EBRD's tailored and innovative finance coupled with technical assistance can catalyse private sector investments to provide public goods. Greater public and private coordination – including through policy dialogue – can increase transparency and policy outcomes to advance transition.” (p.3)

The below comments by CEE Bankwatch Network focus on the sustainability of EBRD investments, the need for better governance in the sector (both corporate and institutional), on issues that the draft Strategy is missing and needs to include or define better. While the draft includes a wealth of ideas in the analysis of the transition gaps and required areas of focus for the new strategy period, the Performance Monitoring Framework focuses on a very narrow set of issues and fails to illustrate how the EBRD will approach the complex needs in the region to ensure sustainable rural development and transition in the agricultural sector.

For example, it is commendable to note the identification of transition gaps in the areas of reduction of CO2 emissions and improved resource use, reduction of food loss and waste, reduction of pollution and increase of organic food, facilitation of employability of women and youth. However, some formulations are still very vague or unclear and the bank should ensure an integrated approach in the future, so CO2 emission reduction will not be used as a 'trump card' in cases of highly problematic land governance, as in a recent biogas project in Ukraine. In this regard, the Performance Monitoring Framework is focused too narrowly on emission reductions (green) and employment (inclusive).

Our recommendation is that the EBRD should start conducting comprehensive sustainability assessments, especially for its corporate clients, to ensure that its investments address the whole array of sustainability gaps and opportunities, for example including of agricultural biodiversity assessment, to ensure preservation of crop varieties and animal breeds; product life-cycle assessments, to inform consumers of carbon/environmental footprint; climate risk assessments; land concentration risks; employment impact on women and youth.

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We strongly recommend that during the new strategy period the EBRD will switch its focus to small and medium agricultural producers (SMEs), while ensuring the transparency on sustainability impacts of sub- projects financed via financial intermediaries.

The new Agribusiness Sector Strategy should also include a strong focus on institutional governance, in addition to firm governance. As our case studies of Uzbekistan and Ukraine show, policy dialogue and increased capacity of authorities are required as prerequisites for successful transition in the sector.

1. Sustainable food production and rural development

The current global food system's failures become evident as issues of food security and hunger, access to land and water are among the key challenges for humanity. They are closely linked to other issues of sustainable development of our planet, in particular preservation of the environment, human health, employment in rural areas, urbanisation. Industrial agricultural production is often responsible for the degradation of natural ecosystems and for the emission of more than a third¹ of global greenhouse gas emissions, while at the same time failing to enable access to healthy and high-quality food for everyone.

The Sustainable Development Goals² regard the question of food production in the context of ending poverty and hunger, as well as more widely in connection to good health and well-being, ending inequality, responsible production and consumption, reversing land degradation and halting biodiversity loss, as it is clear by examples from the 2030 targets³:

- Target 1.4 underlines the importance of land rights and *the “ownership and control over land” for the poor and vulnerable, echoed by Target 5.a that calls for “reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources”*;
- Target 2.3 calls for doubling the agricultural productivity and incomes of small-scale food producers, *“including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment”*;
- Target 2.4 calls to *“ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality”*;
- Target 12.3 calls to *“halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses”*.

In addition, sustainable development of rural regions in the long-term is viable only in the structure of agrarian production, where large, middle and family farms and enterprises are equal

1 <https://www.oecd.org/tad/sustainable-agriculture/Agriculture-climate-change-september-2015.pdf>

2 <https://sustainabledevelopment.un.org/sdgs>

3 <https://unstats.un.org/sdgs/metadata/>

players in the market and have the equal conditions for access to knowledge and financial opportunities. As big agri producers have been privileged in many ways, support and development of small and medium agricultural entrepreneurship in rural areas has become extremely important throughout the countries of operations of the EBRD. To ensure the equal footing of all producers, integrated solutions are needed including:

- the state's administrative and financial support for small and medium producers,
- democratic space where communities make decisions about the development path of their villages and settlements,
- prioritization of social development and environmental protection;
- innovation.

Food is very political – the production of, access to and distribution of food are essential for our society to function and control of our food system confers power.⁴ More sustainable food systems can be created by placing small-scale agro-ecological producers at the centre of food and farming policy, such as the EU CAP, agri strategies of the countries and future protein plans. This is not only viable, but is necessary for the wellbeing and vitality of current and future generations.⁵

Small farms, their cooperatives and local medium-sized enterprises that are based on the non-exploitation of the environment, social responsibility and animal welfare, have a number of advantages to big agrohholdings. In the long run, it is an economically viable and generally affordable approach to the production of food products, which ensures economic employment of the rural population and creates the prerequisites for the revival of the rural areas and the sustainable development of agricultural regions. Therefore, today, circular and local economies which are designed to eliminate defects and solve the problems of the global food system are increasingly gaining popularity.

Case of Ukraine: In recent decades we have observed the rapid development of so-called agrohholdings in Ukraine – large scale producers, who managed to accumulate big financial, land and natural resources, becoming powerful players not only on the market but also having a significant political influence. The image of “success” of these large-scale agricultural producers overshadows the long-term challenges of the sector, as well as their social and environmental impacts and opportunities.⁶ The EBRD has invested predominantly in agrohholdings in Ukraine, as among its clients are Ukraine's agri giants, such as MHP, Astrata, Nibulon, Kernel Group, Mriya, companies owned by some of Ukraine's wealthiest businessmen, including politically exposed persons.

The draft Strategy discusses the challenges to transition - in particular to sustainability, inclusion and resilience - (p.16) mentioning *improvements in productivity and resource use efficiency, uptake of new technology and innovation, mitigating and adapting to the impact of climate change, circular economy and sustainable resource use, reducing waste and costs, while developing new income streams and sub-sectors, economic and employment opportunities are*

4 <http://www.eurovia.org/wp-content/uploads/2018/01/FINAL-EN-FoodSov-A5-rev6.pdf>

5 <http://www.eurovia.org/wp-content/uploads/2018/08/Report-The-trouble-with-soy-2018-compressed.pdf>

6 Small farms as the basis for the sustainable rural development, 2016:
https://issuu.com/ecocentre/docs/smallfarm_a5_web_final

not equal for all players along agribusiness value chains, problematic access to finance to small and medium sized enterprises.

In terms of response to these challenges (p.20) it is commendable to note the focus on reduction of CO2 emissions and improved resource use, reduction of food loss and waste, reduction of pollution and increase of organic food. Nonetheless, some formulations are still very vague or unclear, like the mention of “alternative crops (e.g. alternative proteins)” or the following: “Increase efficiency and sustainability of livestock, dairy and other primary subsectors and explore opportunities in sub-sectors such as sustainable fisheries and aquaculture.” Although it sounds right, the EBRD should aim to avoid sustainable reduction of emission that goes hand-in-hand with unsustainable land governance practices, lack of comprehensive impact assessments (for example the MHP biogas project in Ukraine).

Recommendations: The new Strategy needs to define Sustainability of agribusiness sector in view of the SDGs. The new Strategy should express stronger focus on the SME sector. Recognising the current limitation of the EBRD financing for smallholders, it would be recommended to establish (if not existing) and sustain outreach work for this category of food producers through programs of support and cooperation via national intermediaries, as well as increasing number of such programs. Thus reaching out for bigger number of potential clients and creating more opportunities for small and medium enterprises, thus ensuring more even access to the local, national and global markets.

2. Lessons learned from the previous strategy period

The evaluation conducted by the EBRD’s evaluation department “...revealed a degree of disconnect between the articulated strategic priorities and selected operational choices, which in some cases were primarily business, rather than strategically-driven.”⁷

The bank’s evaluation report⁸ stated: “Food security” – the main strategic theme, was very broadly defined and depending on interpretation, applicable to almost any type of agribusiness-related project, which resulted in a portfolio that was somewhat less focused on clearly defined strategic priorities than it might have been”.

In the new Strategy the food security is still mentioned as important, but not defined again, along with the term “Food gap” is also being used without definition, thus, leaving the same loophole for the interpretation in the future Strategy.

Recommendation: The new Strategy should define the terms of food security and food gap, as well as provide a more holistic definition of sustainable food production and include the concept of rural development.

2.1 Missing Data on SMEs financing

7 <http://www.ebrd.com/documents/evaluation/special-study-evaluation-of-the-2010-agribusiness-sector-strategy.pdf>

8 <http://www.ebrd.com/documents/evaluation/special-study-evaluation-of-the-2010-agribusiness-sector-strategy.pdf>

The described *2010-17 project-level experience* (p.8) does not provide the indication what changes should be expected in the financing investment structure of the Bank, what would be the difference and added value in the current and future Bank's projects.

The current SMEs financing data, related advisory services and technical cooperation investments by the EBRD in the agribusiness sector is unclear and not easily available. In view of the fact that the EBRD is *"the largest provider of finance to the sector in its region of operations"* the proportions of investments in big business in comparison to the SMEs financing, and information of the bank's impacts and added value so far would be important in charting the course ahead. The lack of this information raises questions on the feasibility of an effective switch of strategic focus to SMEs, as well as the bank's know-how and track-record in ensuring social and environmental benefits through agricultural SME investment.

Recommendation: For the future strategic period the volume of investment in agricultural SMEs, not only the number of projects, should exceed the volumes invested in big agribusiness holdings. Moreover, the transparency of the sub-projects financed through financial intermediaries should be improved.

2.2 Land acquisition and concentration

The study *Extent of farmland grabbing in the EU*⁹ by the Transnational Institute, commissioned by the European Parliament, is sounding the alarm bell on land grabbing in the EU. It shows there is *"significant, albeit partial, evidence that farmland grabbing is underway in the EU today, ...with preliminary evidence indicating that farmland grabbing is concentrated in particular in Eastern European Member States."* A report on "land-grabbing" by TNI suggests that poverty hits the deepest where land concentration is the biggest¹⁰ and while for some countries the tendencies are not yet acute, they might become disastrous in the absence of due attention and targeted measures to counter the trend.

This tendency is also confirmed by the Ecoaction publication¹¹ on land deals in Central Europe that examined examples of deals and activities of companies in post-Soviet countries, indicating that companies invested in acquisition or lease of land, gradually concentrating under their control significant areas: *"Negotiations on the purchase or transfer of land, often occur at the level of government and under the guise of investment projects. There can be traced the flow of funds from high-income to low-income countries, where agriculture is still a driving force for the economy, forcing some countries to remain as suppliers of raw materials only. Unfortunately, such a scenario leads to the economic decline of large areas, and the impoverishment of the population."*

Below are three examples of EBRD-related investments related to significant land acquisitions and land concentration:

9 Extent of farmland grabbing in the EU, 2017: [http://www.europarl.europa.eu/RegData/etudes/STUD/2015/540369/IPOL_STU\(2015\)540369_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2015/540369/IPOL_STU(2015)540369_EN.pdf)

10 <https://www.mo.be/en/report/war-land-romania-battlefield>

11 Big Land Deals in Eastern Europe, 2017: http://ecoaction.org.ua/wp-content/uploads/2018/01/BIG_LAND_DEALS-webs.pdf

MHP Farming¹² (till 2017 - Luxembourg, since December 2017 - Cyprus)

In 2013 MHP acquired the land in Russia (approximately 45 mln USD) and then swapped this land for the land in Ukraine to Agrokultura (Sweden) in 2015. Total size of contracted land is 40 thousand ha in Voronezh oblast¹³. MHP acquired Nyva LLC (Cherkassy region) in 2013 with around 700 ha under contract. For today it has grown to 1800 ha¹⁴. MHP purchased Dnister LLC in 2015. This enterprise had a lot of problems and was purchased after bankruptcy with 10 thousand ha of agricultural land¹⁵.

NCH Capital Inc (USA) Farming¹⁶

NCH Agribusiness Partners II (NCH Capital, USA) via its subsidiaries received an opportunity to buy/rent additional land in Russia and Ukraine in the next years. Its daughter company Agrotterra LLC is an active company on the Russian land market. Due to the set of investments from international financial institutions it has collected one of the biggest land banks in Russian Federation - 280 thousands ha and in Ukraine- 430 thousands ha with plans to expand in the future¹⁷.

Astarta Holding NV (The Netherlands)¹⁸

Astarta released the capital for purchasing the assets with agricultural land due to the loan from EBRD. They took over 2 enterprises in Poltava region of Ukraine with total size of land approximately 7500 ha¹⁹. For now, the land bank of the Company is 260 thousand ha.

Size of land acquired in recent years due to EBRD financing - 81 200 ha.

In overall top-5 Ukrainian agro-holdings, which regularly receiving EBRD financing, are controlling around 2,2 mln ha of agricultural land. At the same time 32 thousand all officially registered small and medium farmers have around 4 mln ha of land. These cases illustrate that the EBRD declared support for agricultural market development with equal conditions for everyone, but in fact promoted a growing inequality on the land markets in Ukraine and Russian Federation as shown above.

Recommendation: The new Strategy should discuss the issue of EBRD facilitating the acquisition and concentration of lands, the impacts the land concentration trend in the region, and it should outline a new approach to tackle the issue.

12 <https://www.ebrd.com/work-with-us/projects/psd/mhp-farming.html>

13 Land Matrix Database <https://landmatrix.org/en/get-the-detail/by-target-country/russian-federation/4607/>

14 <https://landmatrix.org/en/get-the-detail/by-target-country/ukraine/6002/>

15 <https://landmatrix.org/en/get-the-detail/by-target-country/ukraine/6036/>

16 <https://www.ebrd.com/work-with-us/projects/psd/nch-agribusiness-partners-ii.html>

17 <https://landmatrix.org/en/get-the-detail/by-target-country/russian-federation/4963/><https://landmatrix.org/en/get-the-detail/by-investor-name/nch-capital-inc/4596/>

Official website of Agrotterra LLC in Russian Federation

18 <https://www.ebrd.com/work-with-us/projects/psd/astarta-grain.html>

19 <https://landmatrix.org/en/get-the-detail/by-investor-name/astarta-holding-nv/5724/>

3. Institutional governance

The draft Strategy focuses on corporate governance, however, failure to address gaps in institutional governance in its countries of operation may result in decreased access to land and economic opportunities for rural populations and to unsustainable rural development. In extreme cases like Uzbekistan the objectives of the Strategy could not be achieved without first ensuring freedom of farmers in choosing crops to plant, setting prices and competition of buyers of their production that is not controlled by local authorities.

On p.21 the draft Strategy states that the bank will “*foster collaborative approaches to induce a better governance in the sector by working with industry representatives (associations, main private sector market players) and the relevant government authorities*”. However, this approach gives advantage to the big players while leaving out small farmers and project affected people, which would be unjustified and insufficient in certain contexts (as explained below) and may result in further marginalization of small agri producers in the market and in decisions about the sectoral development in their region or country.

Case of Uzbekistan: findings of Bankwatch fact-finding mission in July 2018

In 2017 the EBRD demonstrated its renewed interest in Uzbekistan by investing in two agribusiness projects and a number of financial institutions to onlend to SMEs (before the new country strategy approach was defined). The optimism about reforms in the country, including in the agriculture sector, should be viewed in the context of strong top-down rule and weak rule of law. It is doubtful how far reforms can go led by presidential decrees, lack of coordination and reforms being blocked at the level of mid-level bureaucrats, persisting corruption risks.

At the local level Hokims (local governors or heads of administration, appointed directly by the president), who operate a near-feudal system where they exercise rule over local farmers and business alike. Most larger businesses are said to be “joint-ventures” between local/regional government and a private partner, as activists told a Bankwatch field mission of local business leaders being summoned by Hokims at the whims of the latter. The soviet legacy of centrally planned economies continues to live on in the agricultural sector in Uzbekistan. Quotas known as “plans” exist for what officially sanctioned farmers produce, as this “plan” is set by the Hokimiat based on recommendations from the local representation of the Ministry of Agriculture.

Not meeting quotas three years in a row leads to “optimisation” of land, which amounts to taking the land away from the farmer and a tendering process for other farmers to gain use of that land. There were allegations from activists that this was often used to redistribute land to Hokims’ friends and families. While the local office of the ministry of agriculture reported that this does not happen in fruit-growing, he later went on to explain that “optimisation” led to the reduction of fruit farmers in the Fergana region from approx. 14000 in 2009 to approx. 7000 today.

Case of Ukraine

Local authorities in rural areas are frequently having insufficient (village council) budgets dependent on a major income source - taxes from landowners and cooperatives. The other potential income source, from small scale local agricultural producers, is not being functional. Such procedures and farmers are being pushed-out by the large-scale land leasing companies with whom it is practically impossible to compete for the small/medium farmers. The corporate

social responsibility projects proposed by the agroholdings cannot substitute the functions and the responsibilities of the local authorities, the use of social funds and projects selection is usually non-transparent and not consulted with the communities. Thus, local authorities become hostages of investors and their ‘social’ projects, so often they have to make concessions which may be contradicting the long-term interests of communities or limiting the space for public participation in land governance.

Recommendation: The new Strategy should include a focus on institutional governance and should envision relevant policy dialogue measures.

4. Sustainability in view of the environmental and social impacts of the agri-investments

4.1. Diversity of cultivated crops varieties and animal breeds

Civil society groups working on the right to food and nutrition²⁰ point out that agricultural biodiversity is under severe threat as the industrial plant and animal breeding systems reward homogeneity, thus putting at risk and affecting those variables that underpin the systems of biodiversity. The EBRD should start considering agricultural biodiversity in its agribusiness projects and should require that its clients include impact on the diversity of cultivated varieties and breeds in the scope of Environmental and Social Impact Assessments.

FAO and the Secretariat of the Convention on Biological Diversity (CBD) define it as follows: *“Agricultural biodiversity refers to the variety and variability of animals, plants, and micro-organisms on earth that are important to food and agriculture which result from the interaction between the environment, genetic resources and the management systems and practices used by people. [...] It comprises the diversity of genetic resources (varieties, breeds, etc.) and species used directly or indirectly for food and agriculture (including, in the FAO definition, crops, livestock, forestry and fisheries) for the production of food, fodder, fiber, fuel and pharmaceuticals, the diversity of species that support production (soil biota, pollinators, predators, etc.) and those in the wider environment that support agro-ecosystems (agricultural, pastoral, forest and aquatic), as well as the diversity of the agro-ecosystems themselves.”*²¹

Recommendation: The EBRD should ensure that its agribusiness investments will not threaten agricultural biodiversity and thus endanger food security of communities and nations in the bank’s countries of operation.

4.2. Comprehensive assessment of corporate clients of the EBRD

The draft Strategy on p. 16 notes that *“Poor corporate level governance is a major impediment to the competitiveness of agribusiness companies and private sector investment. Corporate governance improvements in line with international best practices increase transparency and unlock revenue generation potential. Well-governed companies employ rules and practices that*

²⁰ http://www.fian.be/IMG/pdf/droits_semences_uk_web.pdf

²¹ International Technical Workshop organised jointly by the Food and Agriculture Organisation of the United Nations and the Secretariat of the Convention on Biological Diversity (SCBD), with the support of the Government of the Netherlands 2-4 December 1998, FAO Headquarters, Rome, Italy. Available at

balance the interests of stakeholders, provide proper internal controls and disclosure and display high standards of integrity and sound and ethical environmental and social practices.”

The EBRD invests repeatedly in its agribusiness clients, which gives the bank the opportunity to influence the company both at the level of separate projects, but also on corporate level. Historically the EBRD has underplayed this leverage and has categorised its agribusiness investments as E&S category B. The MHP investments in Ukraine are a case in point, as the bank’s client controls all aspects of the poultry production chain (from growing crops to production of fodder; incubating and hatching eggs; raising and slaughtering chickens; and processing, distributing and selling their meat), however, there is no comprehensive ESIA, only appraisal of separate elements, such as the biogas plant (‘end of pipe’ solutions).

4.3. Inclusion

Among key transition challenges (p.16) *“[e]qual opportunities along the value chain: Economic and employment”* are mentioned where there is need *“to enhance employment, entrepreneurship and skills, in particular for women, youth and remote regions, for instance by collaborating with education providers and agribusiness companies.”*

*“Employment is higher in small-scale agroecological enterprises. One study on small-scale farms in the UK found an average of 3.2 full-time employees per hectare, as opposed to a national average of 0.026”*²² suggesting changes of the EBRD’s financing approaches with significant switch of focus to SMEs.

Inclusion in the Strategy should contain but not be limited to the value chains (p.20). EBRD projects should have proper social impact assessments and human rights due diligence (HRDD). The bank’s ESP has provisions for women’s rights in PR2, PR5 and PR7, however, their enforcement is very weak. As of experience to date with gender impact assessments for projects, gender mitigation measures and the incorporation of gender in ESAPs and SEPs within the Bank’s projects are showing the necessity to enforce gender-sensitive due diligence. Efforts to Protect women’s rights as well as any other vulnerable groups (elderly, women-heads of households, children etc.) in practice lag far behind efforts to promote gender employment opportunities in projects.

There is a need to broaden the approach of EBRD to sustaining gender equality and women’s economic empowerment as targeted outcomes (p.24) - *“Total number of employees in target group (M/F). Number of people trained (M/F/Youth).”* and increase reference to women’s rights and the introduction of specific tools and guidance as part of the bank’s and clients’ HRDD.

Case of Ukraine

Studies have shown that a significant number of rural households in Ukraine are female-headed, and many of those households are likely headed by elderly women. For example, according to the Complex research of the state of women living in the rural areas of Ukraine²³, women made up 52.3% of the rural population at the time of the study, with 38% retired and up to 45% typically unemployed. Women tend to live around 10 years longer than men (average age of 75.19 compared to 64.61 years) and the study revealed that 19% of families in rural areas had only one

²² <http://www.eurovia.org/wp-content/uploads/2018/08/Report-The-trouble-with-soy-2018-compressed.pdf>

²³ <http://www.ombudsman.gov.ua/files/alena/Doslidzhennya%20Sil's'ki%20zhinky.pdf>, 2015

parent and in 91% of cases it was the mother. About half of all households in rural areas are female-headed households.²⁴

Recommendation: Inclusion of project affected people and community members should be strengthened through better social impact assessments, meaningful public consultations and participation in decision- making.

4.4. Innovations

Financial and technological innovations are available mostly to big agri producers, leaving small ones behind. Large-scale use of advanced technologies by agroholdings has dubious social and environmental impacts, as for example growing automation can lead to job cuts and promote monopolisation.

Currently the use of the term “innovation” and the use of new technologies in the environmental areas has almost become a synonym of “greenwashing”, used as exaggerated marketing tool and not proven to be effective.

Recommendation: Implementing environmental innovations for projects, “energy and resource efficiency” (p.24) and improvements should be aligned with tested and proven technologies that complement the overall strategic efforts by the state authorities (in water quality, nitrates level pollution reduction, climate change adaptation and lowering the greenhouse gases emissions, soil monitoring and improvement, etc.) as environmental improvements have an effect only if implemented systematically and in connection with other measures (e.g. river basin level improvements for water quality, soil degradation prevention, distributed and local green energy sources, etc.).

²⁴ <http://www.ombudsman.gov.ua/files/alena/Doslidzhennya%20Sil's'ki%20zhinky.pdf>, 2015