

Private Sector for Food Security Initiative



European Bank
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The EBRD's Private Sector for Food Security Initiative aims to help address the global challenge of food security by promoting greater involvement of the private sector. It will facilitate private sector investment to increase food production by enabling a better business environment through policy dialogue, technical assistance and global coordination.

Food security

Ensuring worldwide food security is becoming more and more challenging. Following the dramatic price rises and volatility witnessed in food markets in 2007-08 and the unprecedented peak reached in 2010-11, high and volatile prices can no longer be viewed as a temporary phenomenon. Demand for animal protein and biofuel is rising, global food stocks are at alarmingly low levels, resources used for food production, particularly water, are under pressure and climate change has induced more uncertainty on food availability. Global food trade remains constrained by inefficiencies along the logistics chain and unpredictable government intervention – leading in turn to substantial food losses from producers to consumers.

To feed the world under these difficult circumstances, global agricultural production needs to increase by 70 per cent over the next 40 years. The EBRD region has enormous potential to meet this rising global demand. If Russia, Ukraine and Kazakhstan alone were to realise their productive potential today, these countries could supply almost half of the world's grain export needs. However, the investment needs are equally daunting. In Ukraine alone, the investment needed to achieve the increased food supply target is estimated at US\$ 80 billion (between US\$ 2,000-4,000 per hectare). Those investments can only come from the private sector.

Promoting private sector investments

The Initiative aims to promote private sector investment in the food production sector. It will enable the implementation of technical assistance, policy dialogue and provision of new financing. It will also help set incentives and create the right environment to encourage the necessary private sector support.

With a portfolio of almost €3 billion invested in the sector, the EBRD is the largest provider of finance to private agribusiness enterprises and has built an extensive network of international and local private sector clients.

Engaging in focused policy dialogue

The Bank has leveraged its investor position to facilitate a predictable investment environment through its interaction with local authorities. It has developed a long-term cooperation agreement with the Food and Agriculture Organization (FAO), sharing research and establishing a network for agribusiness stakeholders under the EastAgri umbrella. It also co-leads the international coordination through the multilateral development banks (MDBs) working group (WG) on food and water security and has spoken on behalf of the private sector in its contribution to the food security discussions led by the G-20 in 2011. Crucially, by focusing on alternative approaches with the private sector at the centre, the Initiative is complementary to existing food security activities led by other MDBs.

Scaling up and applying untapped approaches to food security

- ▶ The response to the global food crises until now has mainly supported the demand for food in poorer countries and focused on public sector stakeholders. This Initiative focuses on the **supply and production of food and on private sector involvement. In order to match the rising demand for food it is essential to boost global food productivity.** The biggest mileage is to be gained by improving productivity and trade among the big food exporters as well as decreasing losses for food importers and better targeting the vulnerable.
- ▶ **Fostering public-private dialogue to unlock investment bottlenecks.** The EBRD can effectively promote public-private sector discussions in its countries of operations in order to achieve predictable policies and investments in food security.
- ▶ The EBRD's expertise in **investing along the whole food value chain, especially improved agricultural trade logistics** and better financial and risk management instruments, is particularly relevant in the food security context. These areas are crucial to smoothing the flow of products and to reducing food price volatility.
- ▶ Food production is closely tied to both **water and energy usage.** Building on the success of its energy efficiency programme, the EBRD focuses on activities that aim for more efficient utilisation of water, so as to produce "more food per drop" of water and fertiliser.

Boosting the Ukrainian grain sector development through policy dialogue

The EBRD, in cooperation with the World Bank, the FAO and the Ukrainian Ministry of Agrarian Policy and Food are continuing efforts to improve the investment climate in the Ukrainian grain sector through better cooperation between the private and public sectors.

To this end, and with the support of EBRD donor funds, the Bank and the Ministry have organised a series of roundtables with key sector participants in Ukraine – including leading domestic and international private enterprises, the Ukrainian Grain Association, the Ukrainian Agrarian Confederation, the Agrarian Markets Development Institute and the FAO. This allowed public and private sector representatives to meet and openly discuss sector issues for the first time.

As a result of the first roundtable held on 27 January 2011, major sector participants signed the Initiative for Joint Action Memorandum, which established core principles for a transparent grain market in the country to boost investor confidence, and formed the Ukrainian Grain Sector Working Group to promote and support continuous dialogue and cooperation.

The Working Group, with the EBRD's and FAO's support, met regularly between April and October 2011. The Working Group strongly advised that grain export quotas deter much-needed investments in the sector. Following a joint letter by the EBRD, World Bank and International Monetary Fund (IMF) the government grain export quotas have been removed and replaced by export duties. As a result of the second roundtable

– held on 18 October 2011 – those export duties were also removed.

The EBRD and FAO will continue providing support to the Working Group with the aim of facilitating grain market transparency and policy predictability. The Bank will also provide assistance to the Ministry in a number of fields, from the calculations of grain balances to warehouse and crop receipts to facilitate financing of primary agriculture in the market where financial resources are scarcely available.

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Transferring agricultural know-how to Georgian farmers

The collapse of the Soviet Union led to the disruption of the system of state-run agricultural collective farms in Georgia. Today one of the main challenges Georgian entrepreneurs face in the farming sector is the lack of modern agricultural know-how.

In response to this situation, in 2010 the EBRD provided support for the expansion of Margebeli, a Georgian agribusiness group, with a loan of US\$ 12 million, and importantly, with donor-funded technical assistance to the group's Marneuli Agro – a farm producing cucumbers and tomatoes. The focus of the technical cooperation was to introduce modern agricultural farming techniques, including soil irrigation and the environmentally sustainable use of liquid fertilisers, to improve land preparation for better crop results. An international consultant spent a year onsite training Marneuli Agro staff through all the farming phases from seeding to harvesting. The result? Harvested volumes that had almost doubled compared with the previous year, coupled with decreased costs of production.

Building on this success, the EBRD extended a second loan of US\$ 7 million to Margebeli and launched a new technical cooperation project funded by the EBRD Early Transition Countries Fund, which will help Marneuli Agro improve its farm management techniques and increase yields per hectare. On completion of this hands-on training, Marneuli Agro farmers will acquire vital agricultural and farm management knowledge to independently and effectively manage production using modern agricultural practices.

Moreover, the guidelines prepared during the assignment will allow for the dissemination of agricultural knowledge to other farmers in the region.



Financing Serbian farmers through grain warehouse and crop receipts

For most farmers in the world, obtaining credit from banks is not an easy task. Serbian farmers, however, are backed by a system that gives them a better chance to help finance their businesses. The grain warehouse receipts system allows grain producers and traders to use their grain as security for loans after harvest.

Harvests are stored in licensed warehouses and the receipts from the warehouse act as the security accepted by the banks to extend loans. This way, the farmer does not need to sell his crop just after the harvest – when prices are lowest. And in the unlikely event that the farmer cannot repay the loan, the bank can sell the grain stored in the licensed warehouse to recover the loan.

Given that some of the investment needs are most pressing before the harvest is complete, the EBRD has joined forces with the International Finance Corporation (IFC) to share lessons from the Brazilian Crop Receipt programme with farmers and policy-makers in Serbia. This system would make it possible for future crops to be accepted as collateral against loans. Leading industry participants (Syngenta, Louis Dreyfus, BASF SE, Bunge and Avgust) sponsored a study tour of Brazil for high-level officials from Russia, Ukraine and Serbia in March 2011. The willingness of these leading private sector companies to support such initiatives both financially and technically confirms the commercial rationale of these new instruments.

The EBRD, jointly with FAO, has been supporting the efforts of the Serbian Ministry of Agriculture to complete the implementation of both the warehouse receipt and crop receipt system and strengthen the awareness of these financing tools among private sector stakeholders, local banks and relevant authorities.

Through technical cooperation programmes, supported by the EBRD Shareholder Special Fund, the EBRD and FAO helped develop the institutional capacity-building to provide for warehouse licensing and inspection and assisted in the creation of an indemnity fund to cover the fraud risk at the warehouse. Thanks to study tours and targeted training, the involved personnel can ensure the integrity of the system and compliance with the legal, financial and technical requirements of public warehouses.

The warehouse receipt system in Serbia is now fully functional and growing stronger from harvest to harvest and great strides are being made towards full implementation of the crop receipt system.



Key elements of the Private Sector for Food Security Initiative

1. Direct financing and technical cooperation (TC) for risk management, insurance, hedging, analytics and policy dialogue.

The programme will help introduce pre- and post-harvest financing mechanisms (such as crop receipts and warehouse receipts systems), as well as improved trade logistics for importers and exporters. TC programmes will mainly focus on improving efficiency, the transfer of know-how, quality control, financial reporting and corporate governance standards, as well as developing linkages at every stage of the food chain.

2. Promote private-public sector platforms with a focus on improving the supply response by the private sector, in coordination with other international financial institutions (IFIs).

This programme will entail strengthened public-private policy dialogue in countries such as Ukraine and other current and new countries of operations, with particular emphasis on food security in the grain and dairy sectors.

3. Global supply-to-demand food chain: match food export and food import countries more effectively.

The programme will match the huge potential for food exports from the existing EBRD countries of operations with the extensive import needs of the southern and eastern Mediterranean (SEMED) region, which is the biggest importer of cereals in the world. It will also enable an exchange of lessons learned between the current EBRD

countries of operations and the SEMED region on how to build an effective private-sector financed and specialised storage and transportation system.

4. Resource efficiency: introduce support to increase water efficiency in food production through water audits.

Building on the success of energy efficiency audits for private sector enterprises along the whole food value chain, the Initiative will support the introduction of water audits as well as policy dialogue to promote efficient water use in food production.

5. Institutionalise an improved IFI coordination through the Multilateral Development Banks Working Group on Food and Water Security.

The Initiative will utilise the collective strength of the MDB WG in joint projects for strengthening social safety nets, addressing food market volatility, promoting agriculture and food security investment and improving access to water. Thanks to the Initiative, the EBRD will continue to underscore the important role of the private sector in the G-20's debate on food security.

6. Scale up the successful EBRD-United Nations Food and Agriculture Organization (FAO) framework collaboration on food security, including the expansion of the EastAgri network of IFIs and private banks investing in agriculture/agribusiness to SEMED region: MedAgri.

Improving international coordination on food and water security

Since its inception in October 2010 the MDB Working Group on Food and Water Security co-chaired by the EBRD and the Asian Development Bank (ADB) has intensified its collaboration and policy coordination. The MDB WG has developed a joint action plan that aims to leverage the MDB's collective strengths and resources to help governments of developing member countries and the private sector to frame robust responses to emerging challenges and steadily worsening food and water security. The joint action plan has four key components:

1. financing investments and promoting policies to improve agricultural productivity
2. supporting food access for poor and vulnerable people faced with increased food price volatility through improved sustainable social protection measures
3. addressing food market volatility to help poor countries cope with abnormally large international food price spikes through trade facilitation measures and assistance in the improvement of value chains
4. helping the private and the public sector to use water productively throughout the value chain.

The EBRD has used its role in and through the MDB WG to make the voice of the private sector heard – for example through coordinated interaction and policy messages to the G-20 for all three workstreams associated with food security (agriculture, development and finance). One example of the beginning of increased joint technical assistance is the IFC-EBRD cooperation in the development of a Brazil, Russia and Ukraine exchange programme on crop receipts.

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