Food Prices, Water Efficiency and Conservation of Biodiversity - Emerging Issues in the UNECE Region

Regional Implementation Meeting on Sustainable Development
Third Meeting, Geneva 28-29 January 2008

Brigita Schmognerova, Vice President, EBRD

1. Food price inflation

EBRD is an international bank with a mandate to promote transition from CPE to market economy with a strong commitment to sustainable development. In 2006 the Bank developed Sustainable Energy Initiative (SEI) in a framework in which it will invest €1.5 bil in 3 years in energy efficiency and renewables.

The Bank is active in agriculture, however its involvement in this sector has not been strong. Nevertheless, in the near future - due to the recent developments like food shortages, etc. this might change.

I would like to address the 4th group of questions for this session and illustrate issues in engaging different actors in sustainable development on three different areas which are becoming more prominent in our discussions: (1) food shortage, (2) water efficiency and (3) biodiversity.

The food price index which rose by 9 per cent year on year in 2006 more than quadrupled in the first three quarters of 2007 to 40 percent. A sharp rise of food prices and agriculture commodities as grains and dairy products do not reflect only temporary price fluctuation that is up and down but is becoming a more permanent phenomenon as referred to in yesterday's discussion.

Three major factors explain this new trend:

a) effects of climate change
b) rapid expansion of the use of agricultural land for production of bio fuel
c) growing consumer demand due to either population growth and /or growing purchasing power as a result of growth and poverty reduction in the region.

Therefore, the EBRD in cooperation with the FAO is organising an Emergency meeting on fighting food price increase in London on the 10th of March 2008, inviting representatives from IOs and IFIs, governments and the private sector representatives in agribusiness to discuss the need for sustainable investments in agriculture.

A sharp rise of food prices is of a particular concern for policy-makers when it comes to the end of a political cycle. Many urgent and often inadequate or inappropriate measures are taken which help to mitigate immediate negative impacts on voters particularly on those that are most affected - low income households for which food expenditures represent a high share of their household expenditures, for example, the bottom deciles of populations in CA spend up to two thirds of their local expenditure on basic foods.

However, these measures - while they might work in the short run, cause more damage in the long run.

High food prices have led to political unrest in many countries including one of the members of the UNECE (Uzbekistan). The reaction in some of the transition countries with short-term effects included restriction of increases in domestic food prices, combination of price control and quotas and export tariffs imposed on some agricultural commodities and lowering import tariffs on the other like dairy products and meat, subsidies and interventions using state reserves. Russia has introduced export duties on wheat and barley and imposed price caps on some food products, Ukraine has been using temporary export quotas on grains, and Kazakhstan is considering increasing its strategic reserves for emergency use. Other countries using government interventions in the UNECE regions include Azerbaijan, Bosnia, Croatia, etc.

However, these responses as already noted, might help in the short run do not ensure longer-term food security and/or prevent from further dramatic price increases, do not exploit opportunity in countries which are or could become food exporting countries and could benefit from higher international prices. In addition to that, these interventions might generate some side-effects which are not desirable - like unwanted redistributive effects, corruption, etc.

A number of transition countries (Ukraine, Russia, Kazakhstan, Moldova, etc) have great potential to significantly increase their food production in a sustainable way and become important net exporters or increase their position as net exporters of food in the international market. They have an opportunity also to become exporters of organic food, the demand for which is accelerating in the higher income countries in the UNECE region. However, this requires a significant change of the government's approach. Mainly:

1. Limitation of short-term measures to those that are the least distortionary (like lowering impact tariffs, providing targeted income support to the low income groups) and
2. Emphasis on medium term and longer term solutions, like improving business environment in the agri sector including development of a functioning land market, expansion of rural financial services, etc., providing consistent and predictable policies stimulating efficiency-driven agriculture production, supporting investment in farms service infrastructure including in logistics and warehousing, strengthening linkages between food processing companies and primary producers, etc.

In many of these countries there are great opportunities for future improvements in productivity level in agriculture, in improving the linkages between producers, processors, traders and consumers, etc.

The EBRD is considering some innovative approaches to promote agriculture that could deliver additional environmental and social benefits like Sustainable agriculture initiatives or Supply chain initiatives and Multi project facility. Sustainable agriculture financing facility would build on experience with the Tajik Agriculture Finance Framework and assist small producers to produce and market agriculture products in economically viable and environmentally friendly way - using less fertilisers and ensuring high quality food, being more energy, water and other resources efficient, paying attention to conservation of biodiversity, preventing land degradation, etc.

The Supply chain initiative is aiming at promoting rural development and high standards in environmental, labour and H&S requirements, through promoting big supermarket chains to contract from local business that comply with the above mentioned requirements. A good example is two Russian supermarket chains - Monetka and Perekrostok that acquire 60-70 percent of the food products they sell from local farmers.

The third emerging initiative Multi-project facility considers setting up an Agriculture Fund investing in dairy products produced in community and paying attention to ethical and social issues.

2. Water efficiency

Impacts of climate change on water include reduced availability of water in many countries in the UNECE region. The most affected areas under water stress are in Southern Europe and Central Asia where it is predicted to increase from 19 per cent to 35 per cent. The most sensitive sectors to reduced water availability in Europe in decreased order are agriculture, energy, tourism and municipal water supply. The effect on agriculture - the biggest water consuming sector - will be two fold, first, reduced availability and quality of water, second increasing demand for irrigation due to global warming.

In a situation of rapidly increasing water scarcity, adaptation options for agriculture necessarily include measures to achieve higher water efficiency. This might implicate switching to growing other (less water intensive) crops, development of new less water consuming crops, changing production systems, implementing water saving management systems, investing in water efficient irrigation systems, etc.

Global warming impact on energy sector is multiple; rise in temperature is changing energy demand from winter to summer as needs for cooling might exceed needs for heating in many countries; it increases demands for cooling water for power plants, it changes volume and distribution of water for hydropower; hydropower potential is likely to decline in the Mediterranean area by 20-50 per cent by 2070, etc. Climate change impact on water availability urgently requires adaptation options, adaptation measures and policies.

Adaptation options to climate change effects on water must comprise both supply side and demand side measures. EBRD investments in the municipal water sector illustrate a supply side approach. Sustainable access to improved water resources is on average good across the region but major difference remain. In the CA up to 40 per cent of the population lacks sustainable access to good quality water. Since 1996 the Bank has been at the forefront to encourage the transition countries to adopt policies that ensure sustainable investment in the water sector.

Increase of water efficiency is very much dependent on proper water pricing on important demand side measure. The Bank promotes commercialisation of water companies including reform of tariff system and corporate development programmes to improve the efficiency. Policies that encourage appropriate pricing of water create incentives to save water. The legacy of CPE is generally a much lower price for water than is economically appropriate. On one side, it demotivates investors, on the other side; it sends wrong incentives to consumers. The Bank's significant investments in the water sector have been

achieved together with the commitments to gradually raise tariffs over a period while keeping tariffs well below the "affordability threshold". In cases where affordability can impose a constraint on full cost recovery tariffs, the Bank has supported a model of targeted subsidies to low income households instead of low tariffs for all users.

Dramatic increase in energy prices has increased energy efficiency awareness in the UNECE, shaped energy efficiency policies and stimulates new energy efficiency investments. Regarding water efficiency important challenges still remain, like:

- How to increase water efficiency awareness in general? Water efficiency, water scarcity is so far not prominent in the region.
- How to develop market based instruments aiming at improving water efficiency.
- What are the investment opportunities in water efficiency in different sectors?
- How to integrate water efficiency dimension in investments in different sectors, etc.?
- What are the climate change impacts, risks and adaptation options in water?
- What are the economic costs and social implications of adaptation options in water?

To address these challenges, joint efforts of the governments, NGOs and businesses are needed.

3. Biodiversity

The increasing pressures on biodiversity and significance of biodiversity and ecosystem for some industries like agriculture, forestry, fisheries, etc., require concerted actions from different players. It is necessary that governments set up an appropriate legislative framework for preventing and repairing damage to biodiversity. Like the formalisation of carbon credits, the formalisation of the regulatory environment for biodiversity will be of great importance to the creation of a biodiversity market. NGOs' pressure on governments might accelerate the development of the necessary legal environment.

While there is little experience with innovative approaches to biodiversity, the Europeans could learn lessons from approaches like payment-for-ecosystem services, biodiversity offsets or conservation banking having been developed in the USA.

The EBRD in its Environmental Policy and Procedures commits itself to the Convention on Biological Diversity and to the EU associated directives. On a pilot basis, it is developing a biodiversity financing facility that will assist SME operating in Natura 2000 protected areas in Poland. The Bank aims at meeting biodiversity project commercially viable but in early and intermediate transition countries donor funding in the form of TA and investment grants is often unavailable. These countries rely on the donor funds like the ETC Fund, WB Fund, SEI Fund, etc. administered by the Bank.

Thank you.