



Asian Development Bank

Memorandum
Regional & Sustainable
Development Department
Office of the Director General

4 October 2011

To: Haruhiko Kuroda *H. Kuroda* 06/10
President *celebration*

Through: Ursula Schaefer-Preuss *Schaefer-Preuss*
Vice President, Knowledge Management and Sustainable Development

From: Xianbin Yao *X. Yao*
Director General, RSDD concurrently Chief Compliance Officer

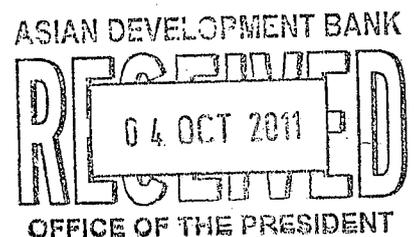
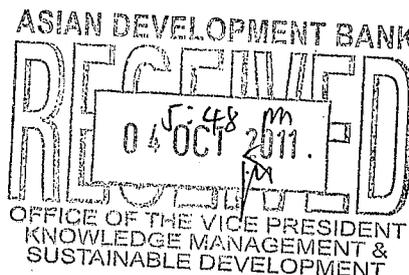
Subject: **Information Paper on Joint Multilateral Development Banks' Action Plan
for Improving Coordination on Food and Water Security
—Request for Approval for Board Circulation** *trn*

- Submitted herewith is the Information paper on the Joint Multilateral Development Banks' Action Plan for Improving Coordination on Food and Water Security. The Action Plan was discussed and endorsed by the Heads of the Multilateral Development Banks' in a meeting held in Washington DC on 26 September 2011.
- The President's approval is sought for circulation of the attached Information Paper to the Board of Directors for its information.

Attachment: Information Paper

cc: Vice-President (Operations 1); Vice-President (Operations 2); Vice-President (Finance and Administration); Vice President (Private Sector and Cofinancing Operations); General Counsel; Directors General, CWRD; EARD, IED; PARD; SARD, SERD; SPD; Chief Economist; Controller; Treasurer; Principal Director, COSO; Deputy Director General, RSDD; Chief Advisor to the President, OPR; Senior Advisors, OPR; VPKM; Resident Director General, NARO; L. Adriano, RSDD-AR; M. Katagami, RSDD-AR

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October 2011

Joint Multilateral Development Banks' Action Plan for Improving Coordination on Food and Water Security

I. BACKGROUND

1. At a meeting in Washington, DC on 10 October 2010, the heads of the multilateral development banks (MDBs), under the chairmanship of President Mirow of the European Bank for Reconstruction and Development (EBRD), discussed outstanding global issues, including food and water security, and established the MDB working group on food and water security to improve coordination.¹ In the London meeting on 11 March 2011, where President Kuroda of the Asian Development Bank (ADB) served as chair, the MDB heads agreed to develop a joint action plan, stressing the need to reduce food price volatility and improve food and water security in coordination with the Group of Twenty (G-20).² The draft action plan was finalized at the working group meeting in Washington, DC on 22 September 2011. President Kuroda and President Mirow presented the Action Plan for Improving Coordination on Food and Water Security at the meeting of the MDB heads in Washington, DC on 26 September 2011. This paper reports on the salient features of the action plan and way forward.

II. KEY FEATURES OF THE ACTION PLAN

2. The action plan (Appendix) aims to leverage the collective strengths of the MDBs to work with the governments in developing member countries and the private sector in framing robust responses to emerging challenges related to food and water security.

3. The 3-year action plan focuses on four priority areas that build on the suite of food and water security measures that the MDBs are implementing individually and may be suitable for joint coordination:

- (i) supporting food access for poor and vulnerable people faced with increased food price volatility through better sustainable social protection measures;
- (ii) addressing food market volatility to help poor countries cope with abnormally large international food price spikes through trade facilitation measures and assistance in improving value chains;
- (iii) financing investments and promoting policy frameworks to improve agricultural productivity; and
- (iv) helping countries allocate water efficiently across sectors, and supporting the agricultural sector in using water productively throughout the value chain.

4. ADB and EBRD will review the progress and coordinate the biannual stocktaking of MDB activities for these priority areas. The working group will develop a results-based framework to monitor the status of the action plan.

¹ The MDB working group on food and water security comprises specialists from ADB, the African Development Bank, EBRD, the Inter-American Development Bank, and the World Bank, with ADB and EBRD serving as the co-conveners.

² The working group has coordinated with the G-20 French Presidency on activities including (i) coordinated inputs into the G-20 agriculture ministers' declaration on the Action Plan on Food Price Volatility and Agriculture, (ii) the state of play paper on MDBs' ongoing and planned risk management tools, and (iii) a paper by international organizations on price volatility in food and agricultural markets and policy responses.

5. The envisaged collective results are
- (i) improved interregional knowledge sharing and market intelligence to facilitate the scaling up of innovations for sustainable and inclusive food and water security,
 - (ii) increased public and private investments in food and water security, and
 - (iii) greater coordination in policy measures that effectively link regions into vibrant global food networks and address the food–water nexus.

III. CONCLUSION AND WAY FORWARD FOR ADB

6. The action plan is consistent with ADB's Strategy 2020³ and the key operational thrusts for food and water security. The action plan builds on the existing works of ADB in the four priority areas (para. 3), which in turn complement the activities of the MDBs. In implementing the action plan, ADB and the World Bank will take the lead in knowledge sharing and coordinating responses on policy measures for the priority areas addressing food market volatility and the food–water nexus.⁴ Specifically, ADB will lead in (i) preparing a joint policy note for the 2012 World Water Forum; (ii) conducting the first Asia water irrigation conference; and (iii) holding policy dialogue on emergency food reserves, trade forums, and commodity futures markets.

³ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

⁴ The focal points for the priority areas are detailed in the action plan (fifth column of Appendix).

JOINT MDB ACTION PLAN FOR IMPROVING COORDINATION ON FOOD AND WATER SECURITY

I. Introduction

1. Global food prices continue to rise and remain volatile. The food price index in July 2011 was 33% higher than a year ago, nearly at the same level as the peak of the food price hike in 2008.¹ Prices have likewise been volatile, with many countries experiencing more severe price fluctuations domestically relative to the global trends. Erratic movements of prices are expected as global food stocks are at alarmingly low levels, resources used for food production particularly water are stressed, climate change has induced more uncertainty on food availability, and food prices are closely interrelated with prices of crude oil and petroleum products. Sustained increases in food prices have influenced general inflation to rise in both low and middle income countries, provoking fears that economic growth will be impeded. Projections for the near term are that these high and volatile food price trends are here to stay.

2. High and volatile food prices fuel food insecurity, which is most acutely felt in our developing member countries (DMCs) that are low income, food import dependent and fragile. The vulnerability of food systems combined with increasing reliance of countries to use ad hoc trade regulations have exacerbated the situation contributing to increased hunger among the vulnerable. Short and medium term solutions are required. The short term measures are needed to stave off further deprivation among the vulnerable groups, while the medium term tackles the core problems of vulnerable food systems—low productivity, poor connectivity, and weak resilience to shocks. The medium term measures should serve as impetus for expanding employment and raising income opportunities of the poor and vulnerable groups.

3. Food security is distinct from food self-sufficiency. Food security implies that all people at all times have physical and economic access to sufficient, safe, and nutritious food that meets their dietary needs for a healthy life. Such food may or may not be produced locally. Trade will become increasingly important for food security, and thus MDBs support the WTO global trade agenda, and promote national efforts to integrate into international markets.

4. Water security implies that people have access to sufficient water of the right quality and at the right time to meet the domestic, agricultural and industrial needs. It implies limiting consumption to an amount that is environmentally safe and using the water consumed as productively as possible. This Action Plan also focuses on productivity of agricultural water.

5. Solutions will nn5 -40.0 æd as

II. The Action Plan

6. **Objective.** The Action Plan aims to leverage the MDB's collective strengths and resources to help the governments and the private sector of DMCs address the continuing and worsening food and water security challenges.

7. Individually, each MDB is implementing a suite of food and water security measures within its geographic influence (see Supplementary Appendix). This Action Plan builds on these existing measures by: (i) ensuring inter-regional knowledge sharing and market intelligence to facilitate the scaling up of innovations for sustainable and inclusive food and water security; (ii) developing building blocks for increased investments (both by the public and the private sector); and (iii) fostering discussion of coordinated policy and institutional reforms at regional and global levels that will effectively link the regions into vibrant global food system networks. This Action Plan is subject to senior management (and in some cases Board) approval of each MDB.

8. **Priority areas of actions and coordination.** The Plan focuses on the following four action areas that the MDB heads identified in February 2011, with cascading focus in each area on the key impediments that MDBs can collectively address to help the governments of DMCs take effective and efficient measures for tackling the food and water security challenges in a sustainable and inclusive manner:

- (i) Supporting food access for the poor and vulnerable people faced with increased food price volatility thru improved **sustainable social protection measures**;
- (ii) 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;
- (iii) **Financing investments and promoting policy frameworks** to improve agricultural productivity; and
- (iv) Helping countries allocate water efficiently across sectors, and supporting the agricultural sector to **use water productively** thru out the value chain...

9. For each focal agenda for action, there will be one global coordinator responsible for inter-regional coordination and consolidation, and one regional coordinator responsible for intra-regional coordination and consolidation. The five geographic regional divisions are Asia and the Pacific, Caribbean and Latin America, Europe and Central Asia, the Middle East and North Africa, and Africa.

10. **Duration and milestones:** The Plan envisages an implementation period of 3 years. Progress on the action plan will be provided every year prior to MDB Heads meeting. The Working Group on Food and Water Security will have in-person meetings once a year. EBRD and ADB will coordinate the biannual stocktaking of MDB activities related to the Action Plan.

III. ACTION PLAN FOR IMPROVING COORDINATION ON FOOD SECURITY AND WATER SECURITY

Action Agenda	Key Problems	Shared areas of focus	Expected joint results	Focal Point
	outreach.		assess progress in the adaptation of new approaches	
Reducing vulnerability to food price volatility	The World has not found ways to effectively address extreme volatility in food market that hurts both producers and purchasers. Food price volatility is expected to get worse due to various structural and cyclic factors.	<p>Finance and facilitate development of policy and institutional environments that address extreme market volatility at national and regional levels, and incentivize private sector investment, including:</p> <ul style="list-style-type: none"> • Food market information and intelligence systems for shared information and collective policy analysis; • Assistance to governments to implement predictable trade policies (incl. export/import legislation, VAT issues, agricultural land policies) • Regional/subregional emergency food reserve system; • Support for the development of global/regional food commodity exchange; • Food security risk management financing instruments <p>Develop adequate rural infrastructure to improve competitiveness of local producers and to allow fast and efficient food distribution</p> <p>Develop pro-poor and pro-nature bio-fuel policy to ensure food security</p>	<ul style="list-style-type: none"> • Stock-take on MDB actions in this regard • Greater coordination and collaboration among MDBs and other international/ bilateral agencies on key activities (e.g., information systems, trade forum, food reserves, commodity futures market) • More coordinated messages on food price volatility 	ADB/WB

Action Agenda	Key Problems	Shared areas of focus	Expected joint results	Focal Point
<p>Promoting investments and policy frameworks</p>	<p>Investment in food security and agriculture is inadequate to ensure the increasing demand for food and feed is sustainably met, and to ensure the resilience of food supply systems against the increasing risks of natural disasters, the use of land and water for biofuels, water stress, and climate-induced shocks.</p>	<p>Promotion of policy reforms that enhances sustainable and inclusive private sector investments in food supply systems (production and value chain):</p> <ul style="list-style-type: none"> • Improvements in an efficient and effective multilateral framework of food security and agricultural development financing; • Financing public investments for improved productivity through improved public goods provision – such as infrastructure, R&D, specialized education • Provision of direct financing to private enterprises along the food value chain with a specific emphasis on demonstration spill-over effects, including SMEs and Micro-enterprises • Promotion of agricultural collateralization options for farmers such as Warehouse Receipts and Crop Receipts, land mortgages, rural guarantee funds <p>Promotion of increased investments in agricultural production and productivity</p> <p>Strengthening research on food security with regard to climate change</p>	<ul style="list-style-type: none"> • Greater knowledge pool to share and learn innovative approaches and good practices • Wider partnership to collectively learn and assess progress in the adaptation of new approaches • Joint support for research on investment needs of major food crops and food value chains, including eventual financing options² 	<p>EBRD/AfDB</p>

² The MDB Working Group on Food and Water Security is exploring financing options for future food and water security investments, such as the co-financing of loans and/or technical assistance projects. In this regard, the Working Group supports the call of the MDB Action Plan on Infrastructure for stakeholders to advocate that MDB boards support blanket waivers to the eligibility rule for projects co-financed by more than one MDB.

Action Agenda	Key Problems	Shared areas of focus	Expected joint results	Focal Point
<p>Addressing the food-water nexus</p>	<p>Irrigated agriculture uses the biggest share of accessible freshwater but is inefficient. Higher efficiencies are inhibited by the absence of pricing mechanisms, low investments in infrastructure and services, the absence of private participation, technological inadequacies, and poor extension services. Competition with energy and industrial water users compounds the issue, coupled with adverse climate change impacts. Higher productivity per unit of water consumed is required.</p>	<ul style="list-style-type: none"> • Identifying the parameters and scale of the food-water-energy nexus at country level. • Design of country-level public policy instruments to help decision-makers allocate and rationally manage water use across the food, energy, industrial and domestic spectrum. • Development of water action plans geared to meet the increased demand for food at substantially lower water consumption levels through effective global partnerships in knowledge, innovation, policy development and capital. • Promotion and financing of innovative approaches, practices and technologies to produce more food with less water (and land). 	<ul style="list-style-type: none"> • Better understanding of water issues and solutions pertaining to food security at regional and country levels. • Wider knowledge base to share and learn innovative approaches, and good practices. • Wider array of partnerships to collectively learn and assess progress in the adoption of existing, proven approaches and new approaches. 	<p>ADB/WB</p>

ADB = Asian Development Bank, AfDB = African Development Bank, EBRD = European Bank for Reconstruction and Development, IDB = Inter-American Development Bank, MDB = multilateral development bank, SMEs = small and medium-sized enterprises, WB = World Bank.

STATE OF PLAY OF INDIVIDUAL MDBS IN THE AREAS OF FOOD AND WATER SECURITY

African Development Bank (AfDB)

Investment:

AfDB has developed several initiatives that directly or indirectly impact food and water security. On safety net measures, the Bank through its Special Relief Fund has extended grant assistance (maximum of US\$ 1.0 million per occurrence per country) to its regional member countries in support of victims affected by natural disasters like drought, earthquakes, floods, etc. Through its Human Development Department (Basic Education Division), the Bank has, to some extent, indirectly financed school feeding programmes as it finances these programmes together with the school and kitchen construction projects of its regional member countries.

In addressing food price volatility, the Bank implemented the Africa Food Crisis Response initiative in 2008, which provided input support to farmers of its regional member countries at the height of the food price hikes in 2008. Impact studies showed a positive impact on food production in these countries for farmers provided with this support. There are also several sovereign risk management products like the commodity/index swaps that are envisaged. This will require the signing off a Master Derivates Agreement from the International Swaps and Derivatives Association. Further, through the support provided by the Bank's Fragile States Unit for institutional capacity strengthening programmes to the Bank Group Regional Member Countries, targeting the implementation of social safety net programmes would be important measures to include.

The Bank finances agricultural and water infrastructure development projects, including rural and community roads, market/storage and agro-processing, agricultural water and water storage, and other infrastructure in support of livestock, fisheries, and rural energy. Technical assistance is used for institutional support and capacity development, like for the sustainable management of water resources and services, preparation of the joint AU/UNECA/AfDB Framework for Land Policy in Africa, and enhanced water governance.

Asian Development Bank

ADB's food security-related operations, including water, are guided by its long-term strategic framework, *Strategy 2020*.¹

Investment:

Under the ADB's Operational Plan for Sustainable Food Security in Asia and the Pacific for 2010-2012,² ADB has committed a \$2 billion target a year for food security-related investments. ADB's total portfolio for these investments amounted to \$5.5 billion for the years 2009 to May 2011. Food security related investments comprise mainly of construction of rural roads for improved connectivity of farms to markets, irrigation and water resources management, and climate proofing of infrastructure investments. The largest share of food security-related investments was in South Asia. During the 2007–2008 food price crisis, ADB approved \$700 million of immediate support for Bangladesh, Cambodia, Mongolia, and Pakistan. The development of ADB's "Water Operational Plan 2011-2020" is complete, with approval

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

² ADB. 2010. *Operational Plan for Sustainable Food Security in Asia and the Pacific*. Manila (adopted in 2009).

anticipated in September 2011. The Plan has a particular focus on water security and its inherent link to food and energy security. ADB's "Water Financing Program" will allow for putting into operation the objectives of the Plan. The first phase of the Program, implemented from 2006-2010, achieved the target of doubling ADB's water investment in, urban, rural, and basin water to over \$10 billion in 5 years. The continuation of the Program during the period 2011-2020 will sustain ADB's water investments at \$2.0-\$2.5 billion annually or a total of \$20.0-\$25.0 billion over the 10-year period.

Policy dialogue:

- Together with the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD), the World Food Programme (WFP), and the International Center for Agricultural Research in the Dry Areas, ADB is implementing the Asia and Pacific Regional Food Security Partnership Framework, which was signed in July 2010 to resolve project-related bottlenecks and facilitate the timely delivery of food security-related outputs and outcomes.
- ADB supports regional cooperation programs involving the Association of Southeast Asian Nations (ASEAN), Greater Mekong Subregion (GMS), and the South Asia Association for Regional Cooperation (SAARC). ADB is providing support for the setting up a regional rice reserve system, a rice trade forum, and a region-based food market information system in ASEAN. For GMS, ADB support is in the area of trade facilitation, common food safety standards, and transboundary animal disease control.
- ADB supports security in a number of ways. For example, at the Asia-Pacific Water Summit in February 2012, the Asia Water Development Outlook will be presented to facilitate discussions on sustainable water resources management and water security in Asia.

European Bank for Reconstruction and Development (EBRD)

Investment:

The EBRD has focused its investments in the private sector along the whole food value chain to boost private sector agribusiness productivity growth. Following the new EBRD agribusiness strategy adopted in 2010, the EBRD has focused on a number of key commodity value chains in the region that have both the potential to influence global food security and limit food price inflation but also have a substantial development potential. The EBRD signed 59 projects in 2009 post last food and financial crises, committing €639 million from central Europe to Central Asia. Of this 42% was committed to crisis response projects, with emphasis on supporting low income/ early transition countries. The Agribusiness portfolio now exceeds €2 billion. In 2010 the bank has scaled up its investments and completed 63 transactions for a record €836m, and up to August 2011 completed 31 transactions for €598. To leverage on the synergies between investments, technical assistance and policy dialogue the EBRD has developed an integrated approach for the grain value chain for key strategic grain producing countries that aims at addressing grain infrastructure and liquidity bottlenecks.

Policy dialogue:

The EBRD leverages its investor position to engage in policy dialogue to inducing regulatory and institutional changes in six main areas: (i) promoting public-private sector policy dialogue to achieve greater policy transparency and coordination through the establishment of regular public-private working groups (Ukraine working group on grain, established January 2011); (ii)

promoting collateralization of soft commodities through technical assistance for post harvest collateralization: warehouse receipt legislation (Russia, Ukraine, Kazakhstan, Serbia); and pre-harvest collateralization: crop receipt legislation in a number of pilot countries; (iii) improving commodity trading and risk management; and (iv) improving quality standards along the whole food value chain through private sector and public sector engagement (v) increasing local currency financing options, (vi) piloting water audits and policy advice on water efficient production technology. In order to coordinate policy messages the EBRD and other IFIs have set up the EastAgri network that serves as a platform for agribusiness activities in the region (members include the World Bank, IFC, FAO, ADB, IFAD, ADB, EIB, OFID, BSTDB, CoEDB).

Inter-American Development Bank

Investment:

The Bank's financial support to the agricultural sector of Latin American countries (LAC) has reached more than US\$2 billion since 2007, with a strong focus on Central America and the Caribbean sub-regions. Expected Bank approvals in 2011 for agriculture will reach US\$530 million. More recently, ensuring food security in LAC became an institutional sector priority of the Bank according to the GCI-9. The Bank is now committed to assisting 5 million farmers in the region to access improved agricultural services and infrastructure investment by 2015.

Policy dialogue:

In 2007, the Bank's realignment eased the way for a strategic approach for supporting the agriculture sector of the region, with three areas of intervention:

- (i) Assist governments in eliminating obstacles in price-transmission mechanisms from international to local prices to ensure that domestic producers benefit fully from favorable price shocks, as well as the improvement of effectiveness, coverage and quality of rural public expenditure to foster investment.
- (ii) Ensure long-term sector competitiveness by supporting the provision of effective and modern agricultural services (agricultural health and food and water safety, innovation, land management, information systems on prices and technology assistance) and rural infrastructure.
- (iii) Where necessary, combine the public investments with temporary direct support programs focused on technology adoption and/or market access and cluster formation.

The Bank's strategic response towards agriculture has been successful. Nevertheless, the Bank recognizes that tackling the issues associated with food security will require a more multidisciplinary, focused approach. The new approach must be well focused on interventions aimed at dealing with the issues that are impeding the LAC's capacity to reduce the impacts of the food crisis and to become a key instrument to solve the problem. In this regard, the approach must consider the underlying effects of climate change on agriculture as an overarching framework.

The World Bank Group

The World Bank Group's Agriculture Action Plan for Fiscal Years 2010–2012 is a summary of the World Bank's proposed work program for agriculture and rural development for the three years from July 2009 to June 2012. The World Bank's Agriculture Action Plan FY2010–2012 was intended to describe how the World Bank plans to support the broad international consensus represented by the World Development Report 2008: Agriculture for Development,

(WDR 2008), as well as with the renewed attention to food security issues caused by recent and projected food price volatility.

Investment:

The World Bank Group projected a significant increase in support from IDA (concessional), IBRD (commercial rates), and IFC (private sector lending) to agriculture, from a baseline average support in FY2006–2008 of \$4.1 billion annually to between \$6.2 and \$8.3 billion annually over the next three years. While the Agriculture Action Plan is largely consistent with the themes of the 2003 World Bank Rural Development Strategy, Reaching the Rural Poor, it also follows the specific insights of WDR 2008. It thus gives relatively greater attention to: (i) the critical need to increase agricultural productivity, especially of poor smallholders, in order to make headway with rural poverty alleviation; (ii) differentiating the mix of support across the “Three Worlds of Agriculture” (agriculture-based, transforming, and urbanized countries, as described in the WDR 2008); and (iii) the role of agriculture in providing environmental services, including in the context of climate change.

Policy dialogue:

The Agriculture Action Plan is organized around five focal areas:

- (i) Raise agricultural productivity—including support to increased adoption of improved technology (e.g., seed varieties, livestock breeds), improved agricultural water management, tenure security and land markets, and strengthened agricultural innovation systems.
- (ii) Link farmers to market and strengthen value addition—including continued support for the Doha round, investments in transport infrastructure, strengthened producer organizations, improved market information, and access to finance.
- (iii) Reduce risk and vulnerability—continued support for social safety nets, for better managing national food imports, innovative insurance products, protection against catastrophic loss, and reduced risk of major livestock disease outbreaks.
- (iv) Facilitate agricultural entry and exit and rural nonfarm income—including improved rural investment climates, and upgraded skills.
- (v) Enhance environmental services and sustainability—including better managed livestock intensification, improved rangeland, watershed, forestry and fisheries management, and support to link improved agricultural practices to carbon markets (e.g., through soil carbon sequestration).