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POLICY RESPONSE TO CHALLENGES IN AGRICULTURE AND RURAL DEVELOPMENT IN THE EUROPE AND CENTRAL ASIA REGION: SHARING EXPERIENCE AND ENHANCING COOPERATION IN THE REGION

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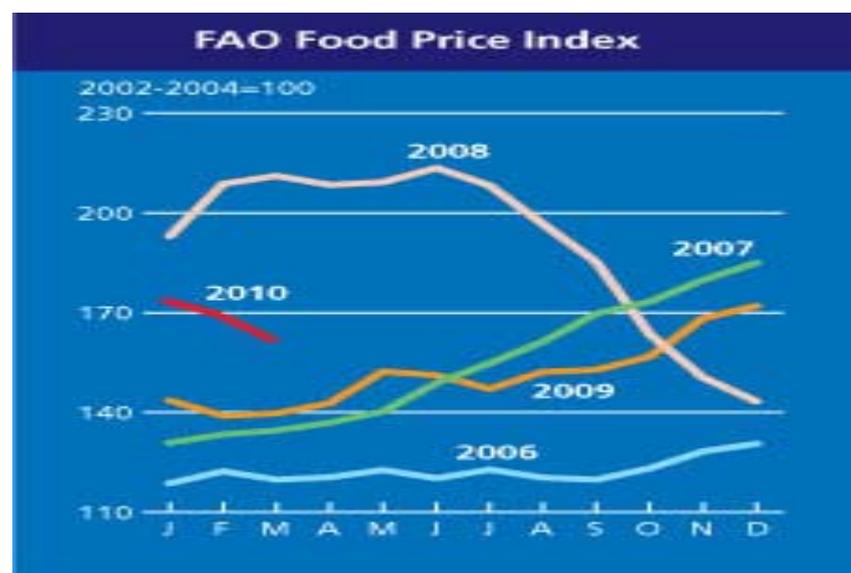
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I. INTRODUCTION

1. The food and financial crises have led to social problems and unrest in scores of countries, including some in Central and Eastern Europe and Central Asia, and have added almost 150 million people to the number of hungry and undernourished in the world while reversing progress towards the Millennium Development Goals (MDGs) hunger target. The Food and Agriculture Organization of the United Nations (FAO) estimates that the economic crisis added far more people to the number of undernourished than did the food crisis. The economic crisis that hit hardest in 2009 has severely depressed economic growth and the purchasing power of consumers, while also impacting food and agricultural markets through depressed demand, declining credit availability and increasing food insecurity. All of these shocks are more severe for low-income populations, especially in food-deficit countries.

2. International food commodity prices that peaked in mid-2008 fell substantially by early 2009 but rose again during the year (Figure 1). In coming years food prices are unlikely to return to the levels of 2002-2004.

Figure 1. Food Price index compared with the 2002-2004 average



Source: FAO Food Price Indices, March 2010

II. DIVERSE ECONOMIC IMPACTS OF, AND POLICY RESPONSE TO THE ECONOMIC CRISIS

3. It is well recognized that the Central and Eastern Europe and Central Asia region encompasses a great deal of diversity. All countries have been through a transition of institutions and governance during the last twenty years but the initial conditions, transition policies and the pace and direction of reforms and restructuring varied greatly as did the consequences for the social and economic well-being of the populations. To highlight some of these differences and anticipate some of the implications for policy responses, this large and diverse group of countries is divided into three subgroups: the European Union New Member States (NMS), Other European (OEUR), and Transcaucasus/Central Asia (SCCA). As is clear from data, there is still much diversity within each group, so any generalization is likely to be incorrect.

4. The greatest degree of commonality is found in the European Union NMS that have adopted common policies and regulations of the European Union and undertook harmonization of

reforms and institutions to apply the regulations of, and to be competitive within, the European Union. The OEUR group includes European Union candidate countries, at various stages of the accession process, potential candidate countries, at various stages of negotiating pre-accession and other countries at differing stages of reform.

5. Economic development, as measured by per capita Gross Domestic Product (GDP) in 2008, varies widely in each of the groups and there is overlap in GDP levels between the groups. Since 1989, many economies have recovered from the initial transition declines and posted substantial increases (index well over 100), some have recovered to nearly where they were in 1989 (index near 100) and some are still below their 1989 level (index below 100). Real GDP growth rates were mostly strong (4 percent or more) over the last ten years and in most countries growth was even stronger (5 percent or more) in the last five years. The Transition Indicator (TI) scores give a crude measure of transition progress, because it is the simple sum of the European Bank for Reconstruction and Development (EBRD) scores given for eight transition reform indicators and five infrastructure reform indicators. European Union Members and candidate countries are all at TI scores of 40 or more and the others range from 39 to 17, indicating a wide range of progress in transition reforms.

6. The diversity in development of agriculture has been documented in numerous studies, which have been well summarized (FAO, 2009a). Even among those Central and East European countries that joined the European Union between 2004 and 2007, there is much diversity in how agriculture evolved within the new policy environment (FAO, 2009b). European Union accession had a positive impact on the agricultural sector in all countries. Impacts included consolidating production, increasing prices, expanding exports and imports, and especially increasing farm incomes. However, outcomes varied significantly depending on initial conditions, policies and the macroeconomic environment.

7. Diversity also becomes very apparent when analysing the impacts of the economic crisis that hit the region with severe declines in capital flows, exports and remittances (World Bank, 2009b). Real GDP growth was very robust in the middle of the last decade (Figure 2), but in 2009, this region experienced the largest decline in real GDP among all the regions in the world. Although most countries that were expected to avoid negative growth in 2009 were in Central Asia, the economies that were estimated to decline by 6 percent or more, including the Russian Federation and Turkey, were in every subregion except Central Asia (Figure 3). Three of the five countries expected to have declines of more than 10 percent in 2009 are NMS of the European Union. Except for three Central Asian countries, the International Monetary Fund (IMF) projects that recovery will be very slow and weak in the region, with five countries having a second year of declining GDP in 2010 and very few exceeding 5 percent growth by 2011.

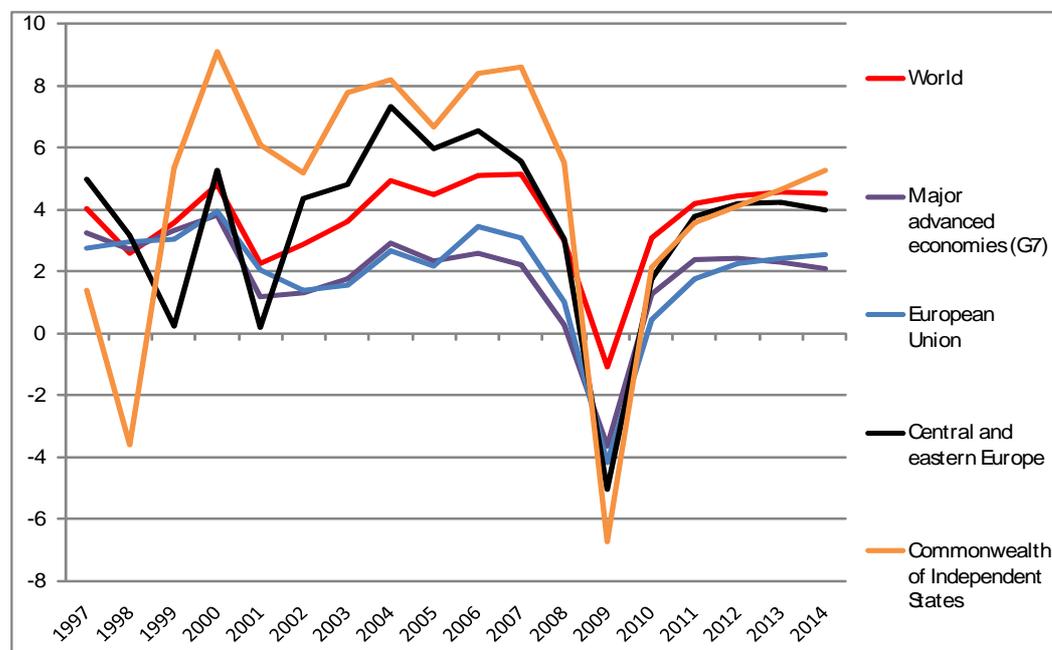
8. The policy response stimulus packages studied by the United Nations Development Programme (Zhang *et al.*, 2009) indicate the diversity of response and degree to which packages targeted social protection (Figure 4). Thus, Georgia and Kazakhstan devoted 14 to 20 percent of GDP to the stimulus, but all except France were over 2 percent. Stimulus programmes in France and Germany can be important to the well-being of neighbouring economies. Shares of the stimulus of 20 percent or more being targeted to social protection¹ in most countries indicate that vulnerable populations have not been forgotten, in contrast to the 1990s crisis (Hoelscher, *et al.*, 2009).

9. The European Union has added stimulus support through the European Economic Recovery Plan (EERP) by accelerating Structural Funds programmes and payments, adding flexibility to cohesion programmes and state aid and employing financial engineering to facilitate bank lending. The World Bank and the IMF have also provided various forms of loan support for

¹ Zhang, *et al.*, 2009 define social protection measures as “policy interventions that are intended to reduce poverty and vulnerability (including transitory poverty and vulnerability due to economic or other shocks) and to improve human welfare.”

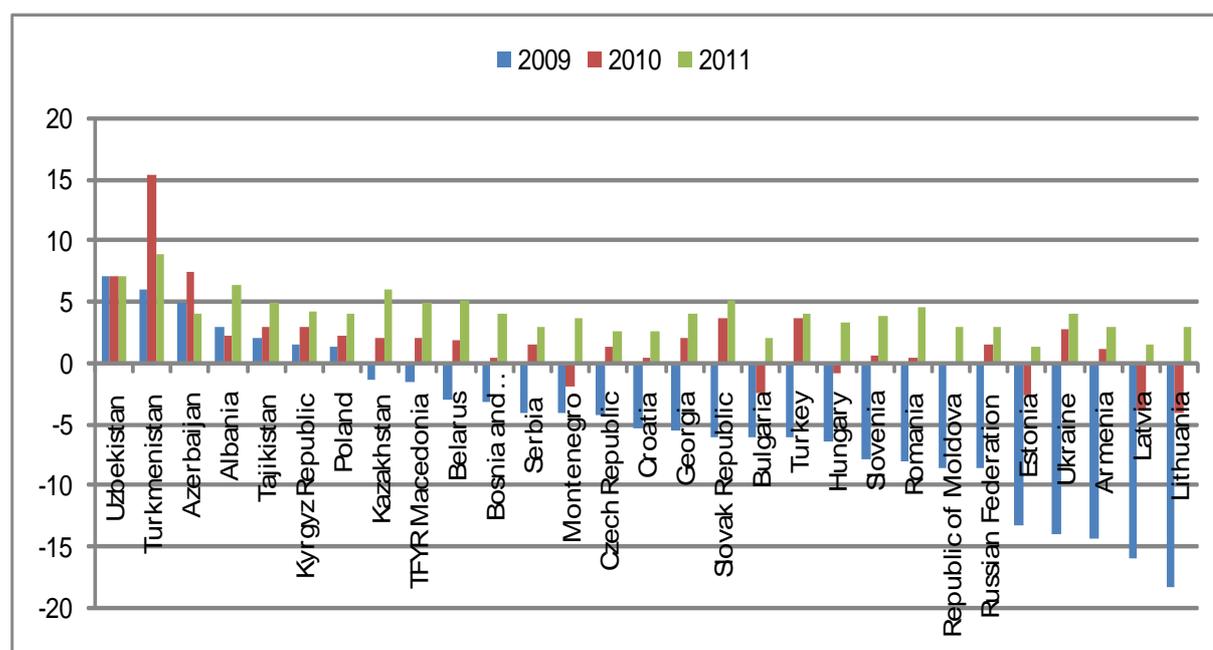
stimulus programmes as well as safety net and financial sector reforms in Armenia, Belarus, Bosnia and Herzegovina, Croatia, Hungary, Latvia, Romania, Serbia, Turkey and Ukraine. One of the critical issues in the coming months and years is the timing and sequencing of unwinding these fiscal and monetary stimulus measures so as to avoid a second dip as well as another inflationary bubble.

Figure 2. Annual growth in real Gross Domestic Product (percent)



Source: International Monetary Fund (IMF) world economic outlook projections, October 2009

Figure 3. Real Gross Domestic Product growth rate in countries of Europe and Central Asia, percent per annum



Source: 2009 from EBRD and 2010 to 2011 are projections of IMF October 2009

Table 1. Comparison of selected economic, institutional and food security measures by country

Countries	2008	2008 Real	1998-2008	2003-2008	2004-	2009
	USD/cap	GDP	GDP %	GDP %	2006	score
European Union NMS	GDP	1989=100	Per year	Per year	FAO*	TI**
Slovenia	27 149	156	4.3	5.2	<5	43
Czech Republic	20 760	142	4.1	5.6	<5	na
Slovakia	17 646	164	5.3	7.7	<5	47
Estonia	17 532	147	7.3	6.8	<5	50
Hungary	15 523	136	3.9	3.0	<5	51
Latvia	14 954	118	7.8	8.3	<5	46
Lithuania	14 085	120	7.0	7.3	<5	46
Poland	13 846	178	4.0	5.4	<5	48
Romania	9 310	128	5.5	6.6	<5	45
Bulgaria	6 560	114	5.4	6.3	<5	45
Other European						
Croatia	15 634	111	4.1	4.4	<5	45
Russian Federation	11 807	108	6.8	7.1	<5	39
Turkey	10 479	221	4.7	6.2	<5	40
Serbia	6 782	72	4.5	6.2	<5	35
Montenegro	6 658	92	5.1***	7.3	<5	35
Belarus	6 235	161	7.7	9.8	<5	24
The former Yugoslav Republic of Macedonia	4 657	102	2.7	4.6	<5	40
Bosnia and Herzegovina	4 625	84	5.3	5.9	<5	36
Albania	4 090	163	6.1	6.0	<5	38
Ukraine	3 910	70	6.9	6.3	<5	37
Republic of Moldova	1 693	55	5.6	5.7	<5	37
Southern Caucasus/Central Asia						
Kazakhstan	8 719	141	9.5	8.8	<5	38
Azerbaijan	5 349	177	14.2	21.7	11	32
Armenia	3 685	153	11.3	12.1	23	39
Turkmenistan	3 606	226	15.1	12.2	6	17
Georgia	2 924	61	7.1	8.5	12	39
Uzbekistan	1 027	163	6.0	8.0	13	27
Kyrgyz Republic	951	102	4.4	4.7	<5	34
Tajikistan	795	61	8.6	7.7	26	28

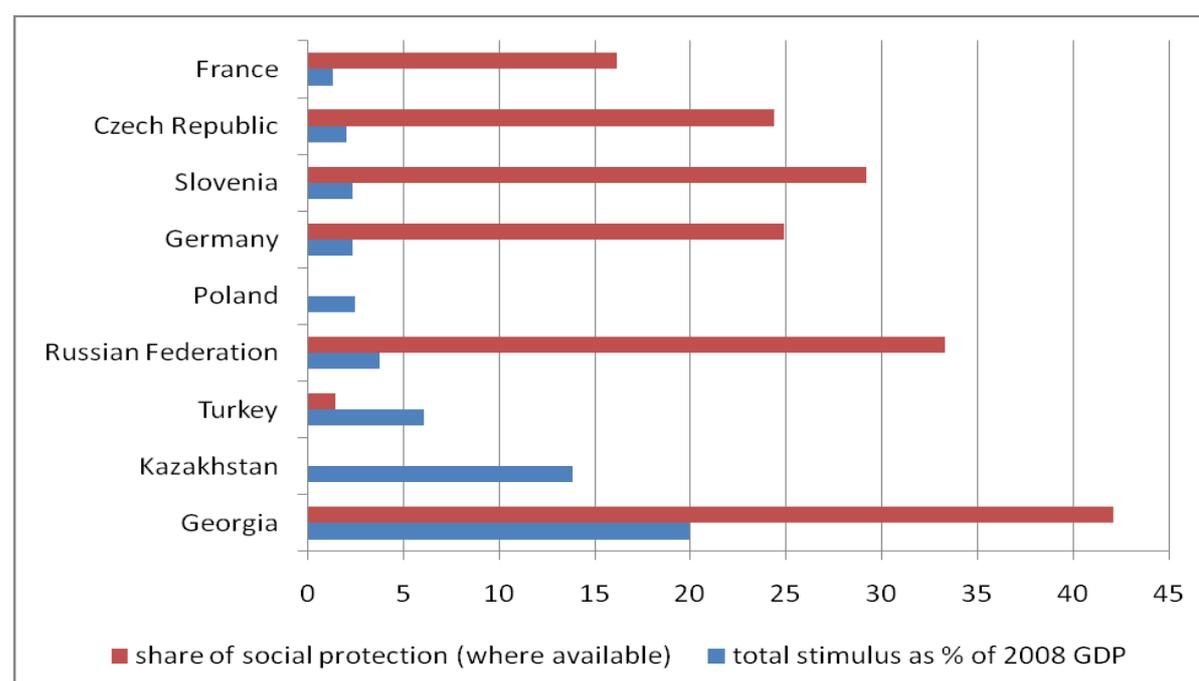
* % undernourished

** sum transition scores

*** 2000-2008 only

Sources: FAO, *The State of Food Insecurity in the World (SOFI)*, 2009; GDP index and Transition Indicator, EBRD, 2009; GDP per capita and growth rates, International Monetary Fund (IMF).

Figure 4. Share of stimulus in Gross Domestic Product and importance of social protection in the stimulus



Source: Zhang et al., 2009

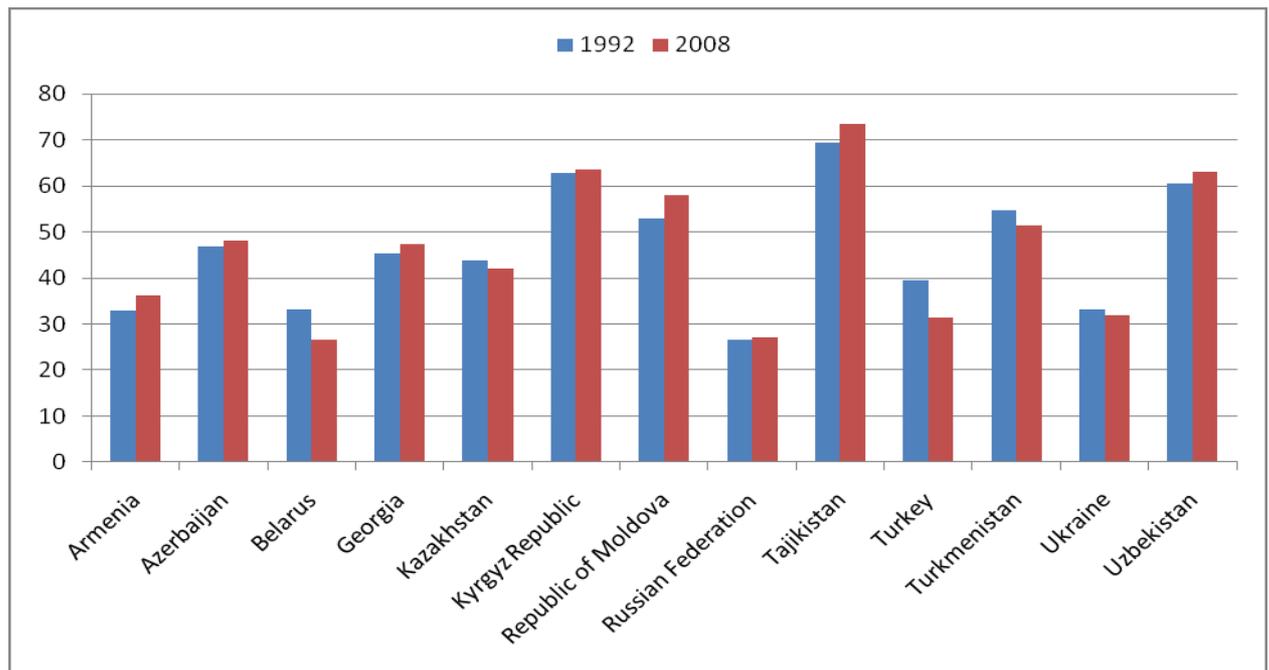
III. DIVERSE IMPACTS OF THE CRISES ON AGRICULTURE AND RURAL ECONOMICS

10. It is also important to be aware of the diversity of economic impacts and policy responses for their cross-border effects. It is critical that this Regional Conference be cognizant of the strong interactions between the macroeconomy and agriculture and rural economies. Agricultural and rural development can indeed even be an important engine of growth.

11. A good example can be the adjustment and harmonization of legislation and ensuing food safety and standards, that necessitated immense investment as part of the pre- and accession process in the European Union NMS and that transformed, in about a decade, both the farm level and processing industry quality and safety standards.

12. In a number of countries the share of the population in rural areas remains rather large (Figure 5). In the Western Balkans, rural population shares are declining in all countries, but in the Transcaucasus and Central Asia, they are remaining stable. In critical periods of economic difficulty there may even be a return to lower cost rural living as a coping strategy. Policy response thus will need to take into account the exacerbated impact of the financial and economic crises on small subsistence farms and the presence of a relatively poor rural population. Also in countries where large farm, extensive crop farming dominates, providing little employment opportunities, the demographic structure in rural areas and low education levels of workers limit employment alternatives.

Figure 5. Share of rural population in the total, average of 1992 compared with 2008

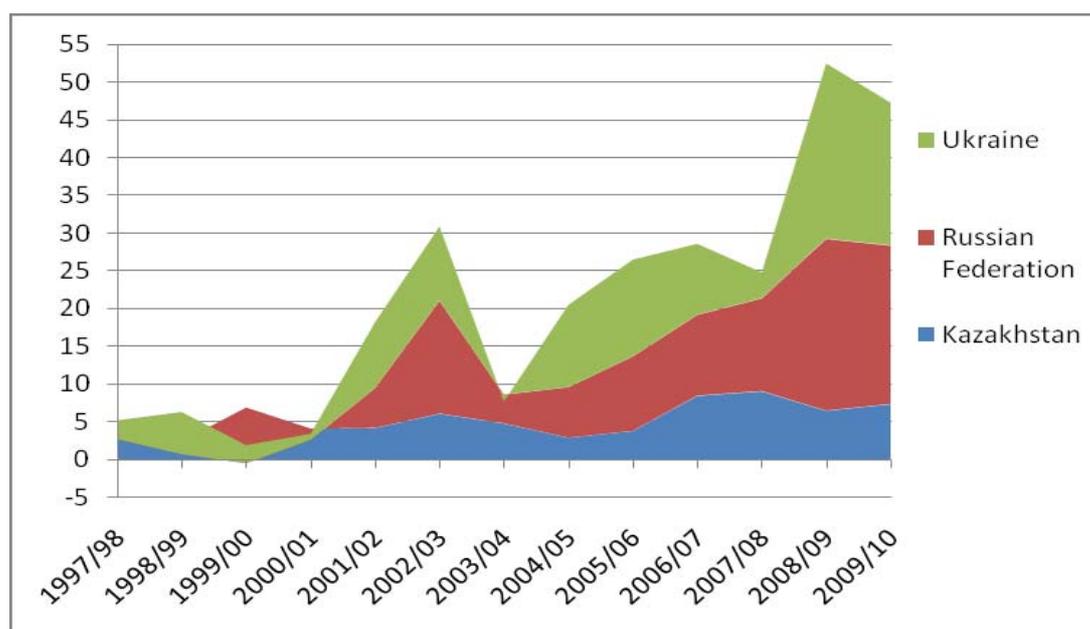


Source: World Development Indicators, World Bank

13. Kazakhstan, the Russian Federation and Ukraine have been contributing to global food availability as production and exports have increased during the last decade (Figure 6). The net effect on the rest of the world is that export growth far exceeded import growth from these three countries and reached over 52 million tonnes in the 2008-2009 crop year. It is remarkable that the net imports of Kazakhstan, the Russian Federation and Ukraine accounted for about 7 percent of global grain imports from 1987 to 1990, while their net exports accounted for more than 12 percent of global grain exports from 2005 to 2008. Agricultural trade, in particular in grains is conditioned by access to trade credit or lack of it; the financial crisis exacerbates shortages of liquidity to finance trade and the credit crunch and economic slowdown have made banks averse to financial risk (International Center for Trade and Sustainable Development, 2008). Countries that depend on trade credit financing may not be able to import grain even if it is available on markets.

14. If the global economy is headed for a slow, uneven and uncertain recovery, what can be expected for agricultural markets? Agricultural markets are traditionally volatile due to weather variation and inelastic short-run supply and demand. Rapid technological change since the end of World War II, combined with inelastic demand for food, resulted in declining real agricultural prices for several decades. This long-term decline in real prices has periodically been interrupted by price spikes that were mostly caused by yield declines due to poor weather. But since the beginning of 2006, the world has seen the largest surge of commodity and food prices since the early 1970s which occurred not only because of bad weather or an outbreak of disease (FAO, 2009c).

15. High prices of products normally stimulate production and high prices of inputs depress production, both effects seen over recent years. When grain prices rose in 2006-2007 and beyond, there was a significant production response around the world, including in this region. As input prices, such as fertilizer, surged in 2008 and weather was less favourable, the surge in global grain production slowed in 2009. Higher grain prices have increased the cost of meat and dairy production and slowed their production growth.

Figure 6. Grain net exports of Kazakhstan, Russian Federation and Ukraine, million tonnes

Source: FAO, 2010

16. One important question is whether the price surge of 2008 will be repeated, whether it will ultimately lead back to the long-term declining real price path or whether real prices will remain somewhere between these extremes in the longer term. Evidence indicates that a rapid transition has occurred from the decades of falling real prices of grains and food to a new market environment in which commodity and food prices are higher, more volatile and more linked to petroleum prices. Much of the market behaviour now is linked to the growing interdependence of energy and agricultural markets. This market behaviour is likely to continue and the prospects of returning to the patterns of the previous decades are less likely.

IV. INVESTMENT IN AGRICULTURE²

17. The financial crisis clearly affected negatively the inflow of capital through Foreign Direct Investment (FDI). In recent years, FDI in the agricultural and food processing sector has grown substantially in the region. In 2003, the FDI in the agrofood industry in the region was slightly more than USD 6 billion, while by 2007, it had doubled.

18. Foreign food processors invested heavily in the food industry of Hungary, Poland and Slovenia. They invested in contract mechanisms to stimulate the quality and reliability of supplies. Relationships between processors and suppliers were reformed with processors incorporating farm assistance programmes into contracts, including the provision of physical inputs, prompt payments, agricultural extension and training.

19. There are important horizontal and vertical spill-over effects from the aforementioned assistance programmes. Horizontal spill-overs have arisen as domestic companies started imitating these management innovations. There are also concerns related to the development of modern supply chains, that they could push a large share of farmers, in particular small farmers,

² Based on FAO, 2009g: Swinnen, J.F.M. and Van Herck, K. "Policy Response to Challenges in Agriculture and Rural Development in the Europe and Central Asia Region: Sharing Experience and Enhancing Cooperation in the Region". Technical Paper for FAO 27th Regional Conference for Europe.

out of the market as these may face difficulty to provide products of required quality and standards.

20. There are two reasons why small farmers in particular could be excluded. First, with many small suppliers there is a substantial increase in fixed transaction costs. Second, processors and retailers demand high quality products and small farmers are constrained in making necessary investments, because they do not have the required resources or face problems accessing external funds in imperfect rural financial markets. Targeted positive action shows, for example, in Poland, that when dairy companies offered assistance programmes to small farmers, this led to many increasing their size of holdings and assets such as cooling tanks.

21. The most important effect of the financial crisis is reduced capital flows, due to reduced investments in financial assets and reduced FDI. Investments in emerging economies are viewed as risky, and when the financial markets have bad prospects, investors retreat from risky assets. In a period of crisis, companies adopt risk-averse investment strategies and reduce their investments. In most countries in the region, FDI inflows are expected to remain positive, although it is expected to decrease in 2009 and 2010.

V. IMPACT OF CLIMATE CHANGE ON AGRICULTURE IN THE REGION – FIRST ASSESSMENTS AND POLICY CHANGES³

22. Another phenomenon contributing to changes and prospects in agriculture is climate change. A World Bank report (2009a) indicates that, many of the region's countries are already experiencing the effects of climate change, which are compounded by a legacy of past environmental problems that increases vulnerability to the effects of global warming. Such effects can add local production instability to those that arise from global market effects and put even more pressure on land and water constraints in coming decades. Available data indicate that the countries in Europe and Central Asia, with the exception of the northern Russian Federation, are expected to bear the burden of severe climate change and long-term effects associated with the increase of greenhouse gases (GHGs). Impacts of climate change will increase, provoking frequent climate variability with progressive enhancement of magnitude in the next 20-100 years. The policy challenge is to address global warming and climatic conditions variability through policy measures that will ensure sustainable growth, whether using new or adopted biotechnologies or cultivation methods.

23. FAO member countries in the European region differ not only in climate, agricultural resources and forest vegetation, but also in their status under the United Nations Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol.

24. Policy options to adapt to and mitigate the impacts of climate change call for an integral approach and knowledge-based technologies. Locally bred varieties and races adapted to local conditions and biotic (pests) and abiotic (drought, freeze, heat, soil salinity) stresses are a promising option. Farmers need to broaden their crop genetic base and use new cultivars and varieties, with different thermal/temperature requirements, better water use efficiency and improved resistance to pests and diseases. They will need sustainable agronomic practices such as a shift in sowing/planting dates, use of cover crop, live mulch and efficient management of irrigation, to reduce the vulnerability of soil-based production systems through management of soil fertility, reduced tillage practices and a more efficient cycle of soil organic carbon in grasslands and cropping. FAO could assist farmers through training and technology transfer for better practices to preserve the agro-ecosystems. This will call for developing datasets, promoting

³ Based on FAO Regional Office for Europe and Central Asia activities on climate change; see document prepared for the 36th Session of the European Commission on Agriculture – ECA: 36/10/2: 'Mapping and policy response to climate change impacts on agriculture and rural areas'.

adaptation and mitigation practices and providing a forum for technical and policy advice on adaptation and mitigation practices.

25. In addition to a thorough assessment of the current trends and anticipated developments of the livestock sector, the recently launched FAO State of Food and Agriculture 2009: Livestock in the balance analyses the livestock sector's impact on climate and related mitigation strategies. Livestock production, like any other economic activity, can be associated with environmental impacts and sound policy action is required to mitigate the impact of livestock production on the ecosystems to ensure that the sector makes sustainable contribution to food security and poverty reduction. Livestock contribute to climate change by emitting GHGs, either directly (e.g. from enteric fermentation) or indirectly (e.g. from feed-production activities, deforestation to create new pastures, etc.) It is estimated that the combined emissions expressed in CO₂ equivalents amount about 18 percent of anthropogenic GHG emissions. The water used by livestock is equal to over 8 percent of global water use, primarily for irrigation of feed crops but also for meat and milk processing⁴. It is also estimated that as temperatures increase in the region, so will the occurrence of new infectious pests and animal disease (such as Bluetongue and West Nile fever), which may contribute to a more intensive disease spread, including zoonotic diseases.

26. Sustainable forest management provides an opportunity for carbon sequestration and for conserving biodiversity. Climate change impacts will potentially shift the area of tree species' native occurrence northwards. The stability of current forest cover and the fragile belt of forest steppes in Eastern Europe and Central Asia may become endangered. The share of competitive, drought resistant and fast-growing tree species could increase and larger and more frequent forest fires, pathogens and insect calamities could spread, particularly in the Mediterranean and Central Europe. Research on the dynamics of forest ecosystems is needed to develop scenarios for adaptation and mitigation measures for forest management practice, particularly for silviculture. Further desertification is also expected especially in the forests and wooded lands of Central Asia.

VI. EFFECTS OF THE FOOD PRICE AND MACROECONOMIC CRISES ON FOOD SECURITY

A. REDUCTION IN THE QUANTITY AND/OR QUALITY OF FOOD PURCHASES

27. This aspect of food security is about economic access to sufficient quantity and quality of food. Higher prices of food, reduced income, or market disruptions can impair access to food that may be available but is not economically accessible. The price surge has abated, at least for now, and most international food commodity prices, except sugar, are much lower than in 2008. This relieves some of the pressure created by the food price surge, but it is appropriate to recall that most prices are still 50 percent or more above the average in the 2000-2004 period. Moreover, food prices at national level in individual countries may have undergone less of a decline, because of local market imperfections. FAO analysis reveals that bread prices remain well above pre-food crisis levels and several are still 30-50 percent higher than in 2006.

28. Governments in the region intervened in the supply chain of primary products to reduce retail prices of products in order to protect the consumption of primary products by the poor. An FAO survey of 77 countries found that 67 percent of those in the Europe and Central Asia region took action to reduce price transmission to consumers (FAO, 2009g). For example, in Ukraine, the Government defined mark-up limits on flour prices and retail price limits on the price of bread. The Government of the Russian Federation implemented price controls on the prices of primary products, such as bread, milk, sunflower oil and eggs (Organisation for Economic Co-

⁴ FAO *State of Food and Agriculture 2009: Livestock in the balance*

operation and Development – OECD, 2009). In Kyrgyzstan, the Government set prices for bread and other primary products at a lower level for the poor.

B. LOSS OF EMPLOYMENT OR REDUCTION OF WAGES AND INCOME

29. During the crises, unemployment increased. Furthermore, the large increase in unemployment in the Russian Federation had significant spill-over effects on labour markets of other countries through remittances. This region includes several remittance dependent economies (RDEs), with remittances greater than 4 percent of GDP.⁵ Remittances to Europe and Central Asia fell by an estimated 14.7 percent in 2009, which exceeded declines in any other region (World Bank, 2009c). This was a significant further shock to the economic well-being of the RDEs over and above the direct impacts of economic slowdown. Purchasing power has been significantly curtailed and poverty has increased as a result of unemployment and declining remittances.

C. MARKET DISRUPTION OR POLICY REACTION THAT IMPAIRS AVAILABILITY

30. During the food price surge, a number of grain exporting countries curtailed or taxed exports to protect domestic consumers. This constrains access to commodities in some importing countries in this region. In reaction to the rising international prices, several countries have banned, taxed or otherwise limited exports of grains and oilseeds, while importing countries reduced import tariffs, subsidized consumers or increased imports as precautionary measures. An FAO survey of 77 countries found that 33 percent of the surveyed countries in the Europe and Central Asia region imposed export restrictions in some form (FAO, 2009c).

D. REDUCTION IN FOOD PRODUCTION

31. This aspect of food security is about availability. Whether the food be produced in the country or imported, the availability is dependent on changes in supply. High prices of production inputs for crops and livestock, as shown by FAO market chain studies from Armenia, Hungary, Kyrgyzstan and Ukraine (FAO, 2009d) have resulted in a sharp reduction in input use due to financial constraints and increased demands for pre-payment from input suppliers (FAO, 2009d). The same studies have documented the credit constraints all along the marketing chain, which includes credit from banks, input suppliers and others. These input disruptions and financial constraints inevitably slow down production growth.

E. REDUCTION IN THE QUANTITY OF FOOD AID

32. Five countries in this region: Armenia, Azerbaijan, Georgia, Kyrgyzstan and Tajikistan have been significant food aid recipients in recent years. High food prices reduce the quantity of food aid that can be purchased and delivered with a fixed budget. Decline of government/international donor financial resources during the global economic slowdown and recession has constrained the resources for food aid programmes. Macroeconomic instability can impact the availability of financing for food aid and the ability of recipient countries to manage its distribution. Export constraints imposed by countries during the food price crisis, which impaired trade during the price surge in 2008, also disrupted the food acquisition logistics for the World Food Programme (WFP).

⁵ RDEs in this region consist of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Kyrgyzstan, Republic of Moldova, Romania, Tajikistan and Uzbekistan.

VII. POLICY PRIORITIES FOR DISCUSSION

33. Two general points are made in discussion of policy priorities. The main challenge is to devise policy strategies and principles that are sustainable in the future and to take advantage of the opportunities that may emerge. This section elaborates on specific economic reforms, those that relate to national policy and those in the purview of international agencies or trade agreements, food and development assistance. A guiding principle should be to give priority to policies that contribute to long-term development goals.

34. Secondly, policy design and implementation should take into account gender roles, relations and disparities in different societies, which essentially means gender mainstreaming in all policies and programmes as adopted by FAO.⁶ Gender dimensions of rural employment are key to understanding the impact of the crises and to developing policy responses.⁷ There is ample evidence that when food prices increase, female headed households suffer greater welfare losses, compared with male headed ones, as they spend a larger share of incomes on food; more importantly, they have less access to inputs, including to land. Research, training and projects to be effective need to take into account the distinct roles, needs and capacities of men and women. The safety net programmes proposed need to take into account the high proportion of women in excluded, food insecure population groups as well as the fact that as a general rule, they are the first ones to lose jobs. The policy priorities for discussion are derived from the series of recent FAO papers on the subject.

A. PRUDENT USE OF LIMITED BUDGET RESOURCES

35. The financial crisis is expected to put the allocation from national budgets to agriculture under pressure because of a decrease in government income due to a reduction in tax revenues and increased social payments. On the other hand, the financial crisis increased the need for public investments in the agricultural sector. In some countries, such as Kazakhstan and the Russian Federation, there is an increase in the expenditures on agriculture.

36. In the Russian Federation, the Government provided 25 billion Russian Rouble (RUB) to Rosselkhozbank, the Russian Agricultural Bank, at a special interest rate and RUB 4 billion to Rosagroleasing, a state-owned leasing company of agricultural equipment. In addition, some supported banks are obliged to provide 100 percent subsidized loans for agricultural projects. The Government of the Russian Federation also provided RUB 60 billion for the agricultural budget in 2008 and another RUB 21 billion for 2009-2010 (Serova, 2008). In Kazakhstan, the Government injected the equivalent of USD 1 billion into agriculture to deal with the crisis and currently the budget spent on agriculture is six times higher than it was two years ago.

37. In Ukraine, which has more severe financial constraints, the Government reduced the official budget of the agricultural sector to UAH 6.37 billion in 2009, which is a 42 percent decrease compared with 2008. However, in May 2009, the Government invested an extra amount of UAH 22 billion in the sector, mainly as direct income support. But the key issue is not the amount of expenditure but prudence and cost effectiveness which places a premium on concern for efficiency in the design and implementation of strategies and policy measures.

⁶ While a number of studies are available on the gender perspective and policy choices in response to the economic and financial crises in Central and Eastern Europe and the Commonwealth of Independent States (CIS), there is less research and policy analyses of the situation of rural women, even though these constitute a majority of the poor; see ECA: 36/10/6: 'Mainstreaming Gender in Rural Development through ECA Working Party on Women and the Family in Rural Development activities' for notes on available data and proposals for activities in this biennium, including work done and planned on impacts of crises on migrations.

⁷ See Report of FAO/IFAD/ILO Workshop on Gaps, trends and current research in gender dimensions of agricultural and rural employment: Different pathways out of poverty. Rome, 31 March to 2 April 2009 at <http://www.fao-ilo.org/fao-ilo-gender/en>

B. SHORT- VERSUS MEDIUM- AND LONG-TERM POLICY PRIORITIES

38. Governments should avoid short-term policies that conflict with long-term development goals. Short-term policies as a reaction to crises should reinforce, not conflict with long-term development strategies. Too often, policy responses to a crisis are generated without taking into consideration all direct and indirect impacts, the longer-term effects or the possible unintended consequences. For example, short-term policies that create wrong incentive signals, market distortions, or disruption of reforms can waste scarce resources and sometimes have a lasting effect.

C. FOOD ASSISTANCE AND EARLY WARNING

39. Governments and international agencies need to expand food assistance, where unavoidable, create social safety nets and early warning and rapid response capacities and combine food security safety nets with measures to improve food access through normal market channels to ensure that the scarce food assistance resources are efficiently used. Early warning systems, including those supported by FAO, should be developed at farm/farmer and Ministry of Agriculture levels to combine market intelligence with statistical methods and evaluation missions to alert authorities and international agencies about urgent needs for food assistance measures.

D. FOOD PRODUCTION PROGRAMMES WITH INPUTS, CREDIT AND EXTENSION EDUCATION PACKAGES

40. Food production stimulus combined with food assistance is the twin-track approach to reducing hunger and is a valid response to this dual crisis. It helps make food accessible to the most vulnerable and simultaneously helps producers, especially smallholders, to raise output and increase incomes. Programmes should aim to accelerate local adaptation and dispersion of currently existing technology. Most countries in the region have a significant unrealized yield growth potential.

E. CONTINUATION OF REFORMS

41. Governments should continue and accelerate reform to enhance transfer of ownership and full ownership rights for land and other productive agricultural and rural assets and improve the business environment for farms and especially for small and medium enterprises (SMEs).

42. With government resources stretched to the limit and bank credit constrained, farmers need to mobilize all possible resources. Restricted ownership is a handicap to any farmer wishing to maximize income from existing assets or to obtain more assets. Many countries need to complete the reform process so that commodity and land markets can operate efficiently. There may be a tendency to slow the reform process during this economic crisis, but further reforms can help attract investment as the economy recovers.

43. In a number of slow reforming countries, the agricultural sector continues to suffer serious losses as a result of the current set of price policy and trade restrictions. Such measures prevent domestic farmers from competing in world markets and could be expected to increase the urban and rural poverty gap.

44. Some countries could still make substantial improvements with regard to land ownership rights. Private ownership of land in some countries was still constrained by the constitution and the leasehold arrangements add uncertainty and barriers to investment. Where land privatization already took place, there is still scope for reform and productivity increases through the establishment of land registries, which facilitate the emergence of land markets (FAO, 2009a).

F. WORLD TRADE ORGANIZATION (WTO) DOHA ROUND OF TRADE NEGOTIATIONS

45. The World Trade Organization (WTO) Doha Round of trade negotiations should be completed in order to restore trust in the international trading system with multi- or plurilateral rules and agreements through open and responsible trade policies. The experiences with trade restricting policies employed by many countries in reaction to the food price crisis and the increased protectionism that has been seen since the financial crisis have created distrust in the global trading system and increased the cost of doing business in international markets. A Doha Round agreement would be an important step in restoring confidence in the trading system and in reducing distortions that restrict trade and create uncertainties for farmers and traders. Although it is tempting for countries to limit exposure of own consumers and producers to world market volatility, a way to protect food security in a global market is to expand trade and reduce trade restricting policies. Nevertheless, food security should be given its due place in the negotiations.

G. LONG-TERM PRIORITIES

Stimulate economic growth

46. The best strategy to reduce poverty, improve food security and enhance agricultural productivity in the past has been an increase in economic growth. As reported in the FAO study on increased hunger and undernourishment, the economic crisis pushed more people into hunger than did the food price crisis. Moreover, the duration of the economic downturn is longer than the food price spike in most countries. The agricultural sector benefits from the growth of the non-agricultural economy, because it reduces labour and unemployment in the sector and thereby increases labour productivity. Restoring economic growth must be a high priority; it reduces unemployment, increases household incomes, improves government budget resources for social protection programmes and sustains economic development.

Enhance investment (public and private) and agriculture research and development (R&D)

47. The World Bank Development Report 2008 states that the developing countries have “suffered from neglect and underinvestment over the past 20 years. While 75 percent of the world’s poor live in rural areas, a mere 4 percent of official development assistance goes to agriculture in developing countries.” Both governments and international agencies and donor programmes need to give priority to investment in agriculture. The government’s role is research and development, infrastructure investment and improvement of the business environment for the private sector to invest. A favourable institutional and regulatory environment for foreign investors is important, as FDI has proven to be a key element in growth for productivity and competitiveness in the agriculture and food industries of the transition economies.

48. Some governments have lowered the corporate tax, but this decrease may only have a limited effect. It should boost domestic and foreign investment, but the impact of the economic slowdown and uncertainty about prospects are likely to be more important for investment decisions. Surveys indicate that the instability of the political and economic environment, ambiguities in the legal system and corruption are the main constraints for FDI in the region.

49. Investments in public goods, such as irrigation and roads, contribute more to agricultural growth than other public spending (e.g. farm subsidies). Investments in rural infrastructure have two important effects. First, they connect farmers to markets by reducing transport costs and integrate smaller farmers in modern supply chains. The investments in rural infrastructure also reduce constraints on farmers in delivering the quality demanded by modern supply chains. Second, investments in rural infrastructure improve the access of rural labourers to urban areas and attract more off-farm employment, including foreign investors. Public work programmes can also be an effective tool to integrate women into the labour market but as a rule require special

assistance to overcome insufficient/outdated skills and professional training and granting to female entrepreneurs equal access to inputs and resources, e.g. credit, land or information.

Improve market functioning to facilitate price transmission and integration with markets

50. Farmers, consumers and the national economy gain from improvements in market efficiency, better transport infrastructure and market information systems, and increased competition, efficiency and transparency in the marketing chain. The government's role is to create this enabling environment.

51. Governments should support the development of modern supply chains by stimulating foreign investments but also through policies that facilitate the integration of farmers. The bargaining power of (small) farmers is enhanced through farmer associations that also serve to reduce transaction costs.

52. The governments should certify quality and safety standards for modern supply chains. Investing in public certification and standards enhances the bargaining power of the farmers and guarantees correct payment for quality. The governments should also facilitate access to rural credit for farmers for necessary investments.

Risk management tools for farmers

53. Risks associated with yield and price variability can be mitigated with good risk management tools such as yield, price and/or revenue insurance, market information systems and contract facilitation. Government should assist the private sector in offering such tools and use prudent incentive measures to encourage adoption. In designing and implementing risk management tools, it is important to consider the decision-making roles of both women and men in farm households.

Enhance rural development and rural infrastructure investments

54. The rural and the agricultural economies are interrelated in many ways but they are not the same, and rural policy needs to recognize that. Rural development needs targeted attention, including social infrastructure such as schools and child care facilities, hospitals and clinics, community centres with libraries, internet connections and adult learning facilities. These support measures are territorial, not sectoral and they improve the rural business environment as well as the capacity of rural residents to enhance human capital, increase economic opportunities and improve the quality of life.

Invest in social protection or safety net measures

55. Safety nets include targeted food distribution programmes to protect vulnerable populations as well as targeted cash transfer schemes, feeding programmes and employment schemes. Social protection is to cushion the main impacts of market and financial shocks in order to limit the long-term consequences. For example, when unemployment increases, incomes decline and food prices or shortages threaten households, they may dispose of valuable assets, interrupt the education of their children or suffer malnutrition. Safety net measures are temporary and targeted to mitigate the worst consequences of a financial or food crisis.

H. CONCLUSIONS

56. The policies to address such a risky economic environment are not simple formulas or quick remedies, because adverse economic conditions and the consequences for poverty and food insecurity in some parts of the region are likely to persist for some time. This paper has stressed the diversity of conditions in Central and Eastern Europe and Central Asia and explored food security policy approaches and policy principles that could be sustainable in the future.

57. Discussion of the suggested policy priorities for Central and Eastern Europe and Central Asia countries refers to a wide spectrum of countries, from high-income to low-income

economies and countries integrated into the European Union and those at the early stages of market reforms and restructuring. Some countries have clearly been more successful than others and much can be learned from their successes. This creates an opportunity for lessons to be learned through the exchange of experiences and the sharing of successes and failures among countries that have progressed along different paths during the last twenty years. In the early years of transition (1993-2002), there was an active exchange of transition experience and expertise under the auspices of the OECD. This could be a useful model for policy dialogue in this region; such a forum could be hosted by FAO.

58. The predicted climate change impacts and necessary adaptation measures may be expected to be comparable under similar climatic, ecological and socio-cultural conditions. There is currently no regional working platform for information-sharing and there is a lack of regional cooperation to overcome the shortage of financing and insufficient research facilities. There is a need for development of a platform for the representatives of the countries to exchange information on climate change impacts on agriculture, to analyse the current status of research and policy frameworks addressing issues related to climate change in the countries of Eastern Europe and Central Asia, with an additional emphasis on the identification of potential technical assistance.

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