The Global Food Price Crisis: Analysis and Response

Mark Cackler
Agriculture & Rural Development Department
The World Bank
mcackler@worldbank.org

October 2, 2008
Chicago
World Development Report 2008:
75% of the world’s poor are rural and most are involved in farming. In the 21st century agriculture remains fundamental for poverty reduction, economic growth and environmental sustainability.
Three Functions of Agriculture for Development

1. Lead sector for growth
2. Lead sector for poverty reduction
3. Major impact on natural resources
1. A source of economic growth

The Millennium Development Goals cannot be met without higher agricultural productivity, especially in Africa

- Large sector for GDP growth
- Affordable food and wage competitiveness
- Comparative advantage in trade
- Strong growth linkages

Accelerating agricultural growth in Africa

<table>
<thead>
<tr>
<th>Period</th>
<th>Average annual real agricultural growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-1990</td>
<td>2.3</td>
</tr>
<tr>
<td>1990-2000</td>
<td>3.3</td>
</tr>
<tr>
<td>2000-2005</td>
<td>3.5</td>
</tr>
</tbody>
</table>
2. Poverty reduction

- 2.5 billion people depend directly on agriculture
- 800 m smallholders
- 75% of poor are rural and the majority will be rural to about 2040

Global extreme poverty 2002, $1.08 a day

- Urban poor
  - Global: 287 mill.
- Rural poor
  - South Asia: 407 mill.
  - East Asia: 218 mill.
  - Sub-Saharan Africa: 229 mill.
  - LAC: 27 mill.
  - MENA: 5 mill.
  - ECA: 5 mill.
Growth from agriculture is especially effective for poverty reduction

GDP growth from agriculture benefits the income of the poor 2-4 times more than GDP growth from non-agriculture (43 countries)
3. A source of environmental sustainability

**Important user of natural resources:**
- 75% of fresh water resources
- 40% of land area
- 21%+ of greenhouse gas emissions

**Contributions to greenhouse gas emissions**

- Industrialized countries: 64%
- Developing country agriculture & deforestation: 21%
- Developing country other sources: 15%

**Many Opportunities:**
Sustainable farming systems and environmental services (conservation farming, agroforestry, managing landscapes for climate resilience)
Agriculture for Development: Improved Opportunities

Changing diets — a new agriculture of high value products and non-traditional exports

Developing country consumption

Developing country exports

Kcal consumption/capita/day (1981=100)

Value of exports (1980=100)

Meat
Horticulture
Cereals

Meat
Horticulture
Traditional exports
Agriculture for Development: Improved Opportunities

- Technological innovations:
  - Intensification technologies, e.g. conservation farming, precision farming, improved and resilient varieties – NERICA rice, Bt cotton
  - Information technology
- Risk management innovations (weather insurance)
- Stronger producer organizations
- Public-private-civil society partnerships
Real international commodity prices have been suppressed by current global trade policies (% of price)

-21 Cotton
-15 Oilseed
-12 Dairy products
-7 Other grains
-5 Wheat
-4 Processed meat
-4 Rice
-3 Sugar

Trade share losses to developing countries due to current global trade policies (% point loss to developing country trade shares)

-27 Cotton
-34 Oilseed
-7 Dairy products
-5 Coarse grains
-21 Wheat
-18 Processed meat
-2 Rice
-9 Sugar

But Major Challenges...

Global trade distortions remain pervasive
Challenges

Increasing land and water constraints

Cropland per capita of agricultural population

% of population in absolute water scarcity

Index of cropland per ag population (1961=100)

Percent (%)


ECA  LAC  MENA  EAP  SA  SSA

SSA  SA  EAP  MENA  ECA  LAC
Challenges

• **Making growth pro-poor**
  – Connecting smallholders to new markets
  – Improving assets of the poor, especially women

• **Weaknesses in governance**
  – New state roles, coordination, decentralization
  – Global governance issues (trade, standards, animal health, biodiversity, climate change, donor support)
Agricultural-based countries spend too little on agriculture (and R&D)

Challenges
Challenges

“Misinvestment” is also pervasive

![Graph showing the percentage of agricultural GDP for subsidies and public investment from 1975-79 to 2000-02. Subsidies show an increasing trend, while public investment shows a decreasing trend.]
Challenges
Rising rural-urban disparities

<table>
<thead>
<tr>
<th>Country</th>
<th>Initial Year</th>
<th>End Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guatemala</td>
<td>1989-2002</td>
<td>2.36</td>
</tr>
<tr>
<td>Thailand</td>
<td>1990-2002</td>
<td>1.93</td>
</tr>
<tr>
<td>Cambodia</td>
<td>1997-2004</td>
<td>2.01</td>
</tr>
<tr>
<td>China</td>
<td>1985-2001</td>
<td>3.45</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1992-2001</td>
<td>2.32</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1993-2002</td>
<td>1.58</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1991-2000</td>
<td>1.49</td>
</tr>
<tr>
<td>India</td>
<td>1989-1999</td>
<td>1.32</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1999-2001</td>
<td>1.21</td>
</tr>
</tbody>
</table>
Challenges

Donor support to agriculture

% rural poverty

% ODA to Ag

% ODA to agriculture
Donor Support to Agriculture 1980-2007

Early 1980s
Official development assistance (ODA): 17%
World Bank lending: 30%

Early 1990s
Official development assistance (ODA): 12%
World Bank lending: 15%

Early 2000s
Official development assistance (ODA): 4%
World Bank lending: <10%

World Bank lending is recovering ..... 

...but overall ODA has not recovered
Challenges

- **WORLD POOR**: 75%
- **RURAL**: 75%
- **AGRICULTURE**: 4%
- **OFFICIAL DEVELOPMENT ASSISTANCE**: 4% (12% in 1990)
- **PUBLIC SPENDING** (Sub-Saharan Africa): 4%
So, what should we do?

1. Accelerate **smallholder productivity increases for agricultural growth and food security** in Africa

2. Follow a **comprehensive approach to reduce sectoral disparities** and poverty in transforming countries of Asia

3. Enhance **sustainability and environmental services** from agriculture

4. Pursue **multiple pathways out of poverty**: smallholder farming, labor market, rural non-farm employment, migration

5. Improve the **quality of governance** in agriculture at local, national, and global levels
WDR recommendations on “hot topics”

• Trade liberalization must progress – with attention to transitional issues in developing countries
• Subsidies can be used – with attention to market development and equity
• GMOs have unrealized potential for the poor – with attention to bio-safety
• Biofuels will be important – but need more productive and sustainable technologies
• Climate change requires urgent attention – both adaptation and mitigation
Food Prices: Why the alarm?

• Rising food prices risk losing recent gains in reducing malnutrition. Malnutrition threatens this -- and future -- generations.

• Already hunger and malnutrition are the underlying causes of death of over 3.5 million children every year.

• Not a temporary phenomenon – high food prices are expected to stay high in the medium term (above 2004 levels through to 2015).
Food Prices: Why the alarm?

• Rising food prices risk losing recent gains in reducing malnutrition. Malnutrition threatens this -- and future -- generations.

• Already hunger and malnutrition are the underlying causes of death of over 3.5 million children every year.

• Not a temporary phenomenon – high food prices are expected to stay high in the medium term (above 2004 levels through to 2015).
Why have food prices risen?--Demand

Fundamentals - Supply and Demand

- Sustained **food demand from emerging markets** (of the 73 million net additional persons in the global population each year, 97.5% are in developing countries)
- **Diet changes**, from grain to more diversified diet, meats and dairy with higher derived demand for grains and oilseeds
- **Biofuel mandates** => demand shift, particularly in the United States (corn-based ethanol), and Europe (rapeseed for biodiesel), Argentina (soybeans for biodiesel)
Why have food prices risen?--Supply

• Competition for land from biofuels, esp. in OECD
• Increasing production costs, sharply increasing costs of energy, transport, and fertilizer
• Drought, flooding, pests and disease in key grain regions, these shocks are hard to deal with when stocks are low
• Disappearance due to policy reforms of stabilizing sales from large intervention stocks in USA and EU that had been built up to support producer prices
Food Prices: Major Policy Messages

• **Avoid short-term policies** to short-term food insecurity that have difficult longer-term implications

• Short-run policies require **planning exit strategies** in advance

• Different countries need **different policies**, depending on:
  – institutions, capacity
  – governance requirements
  – size of country and history of trade, etc.

• Promote **longer-term agricultural growth**
Food Prices: Short-Run Options

Better policy choices

- Reduce Food Grain Taxes/Tariffs
- School Feeding Programs
- Conditional Cash Transfers to the Poor
- Targeted Food Subsidies
- Cash for Work
- Food for Work and Food Aid
- Build-up Government Buffer Stocks for Distribution
- Food Rationing
- Price Controls
- Export Restrictions/Taxes
- Export Bans

Worse policy choices
Food Prices: International Action

Finance Ministers at the April 2008 World Bank-IMF Spring Meetings endorsed a “new deal” for a global food policy to embrace a short, medium and long-term response:

• Support for safety nets
• Work and conditional cash transfer programs
• Increased agricultural productivity
• Better understanding of the impact of biofuels
• Action on the trade to reduce distorting subsidies and trade barriers
Food Prices: World Bank Group Action

- With UN system and others, identifying countries most in need and provide rapid assessments, concessional financing and support
- Supporting World Food Programme call for $755 million in emergency assistance
- Closely coordinating with the UN Task Force on the Global Food Crisis
- Investing in Policy and Analytical Work and encouraging constructive policy responses in rich and poor countries
  - Analyses to better understand impact of biofuels
  - Policy reforms to reduce protectionism
  - Gender impact
  - Nutrition impacts
Food Prices: World Bank Group Action

• Global Food Crisis Response Program: An umbrella for providing rapid Bank support for a comprehensive response to the crisis
  – **Provides balance** between short run food stabilization and measures to ensure countries able to cope better in medium term
  – **Facilitates adaptation** to new realities of high and more volatile food prices

• In parallel, increase longer term action and lending to enhance **agricultural productivity**
• Work with **CGIAR** for major scale-up of agriculture research
GFRP: Menu of Program Components

• **Component 1: Food price policy and market stabilization**
  – Examples: Support for grain stock management, improved use of market-based instruments to manage food prices, tax and trade policies

• **Component 2: Social protection actions to ensure food access and minimize the nutritional impact of the crisis on the poor and vulnerable**
  – Examples: Conditional cash transfer program, food stamps, school feeding, targeted food supplements and micronutrients

• **Component 3: Enhancing domestic food production & marketing response**
  – Examples: Seed and fertilizer supply and market development, Rehabilitation of small-scale irrigation, Strengthening access to finance and risk management tools

• **Component 4: Implementation support, communications and monitoring and evaluation**
# World Bank lending for food and agriculture since April 2008

US$ million, over 5 months

<table>
<thead>
<tr>
<th>Region</th>
<th>Agriculture</th>
<th>Social Safety Nets</th>
<th>Nutrition &amp; Food Security</th>
<th>Social Risk Mitigation</th>
<th>IFC</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFR</td>
<td>620</td>
<td>39</td>
<td>44</td>
<td>0</td>
<td>72</td>
<td>775</td>
</tr>
<tr>
<td>EAP</td>
<td>226</td>
<td>56</td>
<td>0</td>
<td>0</td>
<td>79</td>
<td>361</td>
</tr>
<tr>
<td>ECA</td>
<td>98</td>
<td>65</td>
<td>3</td>
<td>8</td>
<td>219</td>
<td>393</td>
</tr>
<tr>
<td>LCR</td>
<td>48</td>
<td>27</td>
<td>11</td>
<td>16</td>
<td>136</td>
<td>238</td>
</tr>
<tr>
<td>MNA</td>
<td>0</td>
<td>23</td>
<td>0</td>
<td>3</td>
<td>38</td>
<td>64</td>
</tr>
<tr>
<td>SAR</td>
<td>168</td>
<td>17</td>
<td>0</td>
<td>12</td>
<td>60</td>
<td>257</td>
</tr>
<tr>
<td>Global</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>55</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>1160</td>
<td>227</td>
<td>58</td>
<td>39</td>
<td>659</td>
<td>2143</td>
</tr>
</tbody>
</table>
Examples of GFRP projects

• **Reduction in food prices through trade and tax policy measures** (reduction or suspension of import tariffs, domestic taxes, etc): Djibouti, Haiti, Madagascar, Burundi, Sierra Leone, Guinea

• **Social protection programs and emergency interventions**: Djibouti, Haiti, Madagascar, Burundi, Honduras

• **Support to agricultural production**: Madagascar, Rwanda, Honduras
Examples of GFRP projects

• **Social protection including** school feeding, cash for work, nutrition, health, and cash transfers: Liberia, Sierra Leone, Kyrgyz Rep., Tajikistan, Moldova and others

• **Agriculture** including seeds, fertilizers, rehabilitation of irrigation infrastructure, livestock and post-harvest infrastructure: Liberia, Kyrgyz Rep., Tajikistan, Afghanistan, Somalia and others
Results to date

• In Djibouti and Burundi grant funding has supported the suspension of tariffs/taxes on basic food staples; consumers have benefited from lower food prices

• In Rwanda, $10 million grant has helped fill an unanticipated financing gap; this was critical to being able to import sufficient fertilizer and also helped maintain the Govt’s overall reform program, including a more private sector oriented fertilizer distribution system
Results to date

- In Liberia, support to pre-school and primary school feeding programs, and to provide rations for pregnant and lactating women

- In Kyrgyz Republic, provision of seeds and fertilizers and training, and mobilization of community seed-funds
Global food prices: recent trends and outlook

• International food prices are declining, but likely to remain high relative to 2004 levels
  – Between June and August 2008, maize prices fell by 11%; rice by 8%; wheat by 6%

• But........ Domestic prices have not declined to the same extent as international prices in many countries
  – Food price inflation remains very high (92% in Ethiopia, 22.5% in Liberia, 23.7% in Togo, 76.4% in Afghanistan)
Global food prices: recent trends and outlook

• Fertilizer prices continue to surge upwards, despite recent declines in energy and natural gas prices

• Increased volatility in food prices anticipated, as grain stocks are still at record lows
  – FAO estimates that grain stocks will be 3.8% higher than in 2007, but global stocks will still be very low

• Biofuel policies and high energy prices likely to keep grain & oilseed prices high for years
  – 70% of increase in global grain production from 2004-2007 went for ethanol in US
  – Biodiesel will use 9 million tons of vegetable oils (7% of global supplies)
Fiscal impacts of high food prices

• The fiscal cost of responses to higher food and fuel prices is more than 1% of GDP for more than 20 poor countries
• Most highly vulnerable poor countries have little or no debt headroom to increase borrowing & aid is the only remaining option to handle the fiscal cost of twin shocks
• In the absence of larger aid flows, poor countries will divert fiscal resources from growth-enhancing expenditures in infrastructure, health, education and other social sectors
75% of the world’s poor are rural and most are involved in farming. In the 21\textsuperscript{st} century agriculture remains fundamental for poverty reduction, economic growth and environmental sustainability.

www.worldbank.org/ard