

# ***The Global Food Price Crisis: Analysis and Response***



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**October 2, 2008**  
**Chicago**



**World Development Report 2008:  
75% of the world's poor are rural and most are  
involved in farming. In the 21<sup>st</sup> century  
agriculture remains fundamental for poverty  
reduction, economic growth and environmental  
sustainability.**

# Three Functions of Agriculture for Development

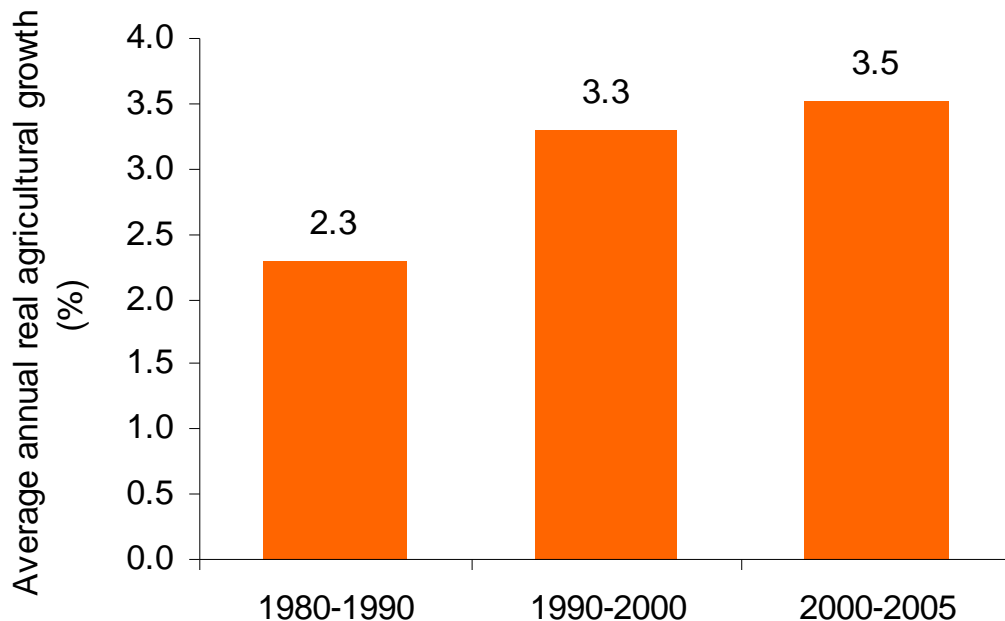
1. Lead sector for growth
2. Lead sector for poverty reduction
3. Major impact on natural resources

# 1. A source of economic growth

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

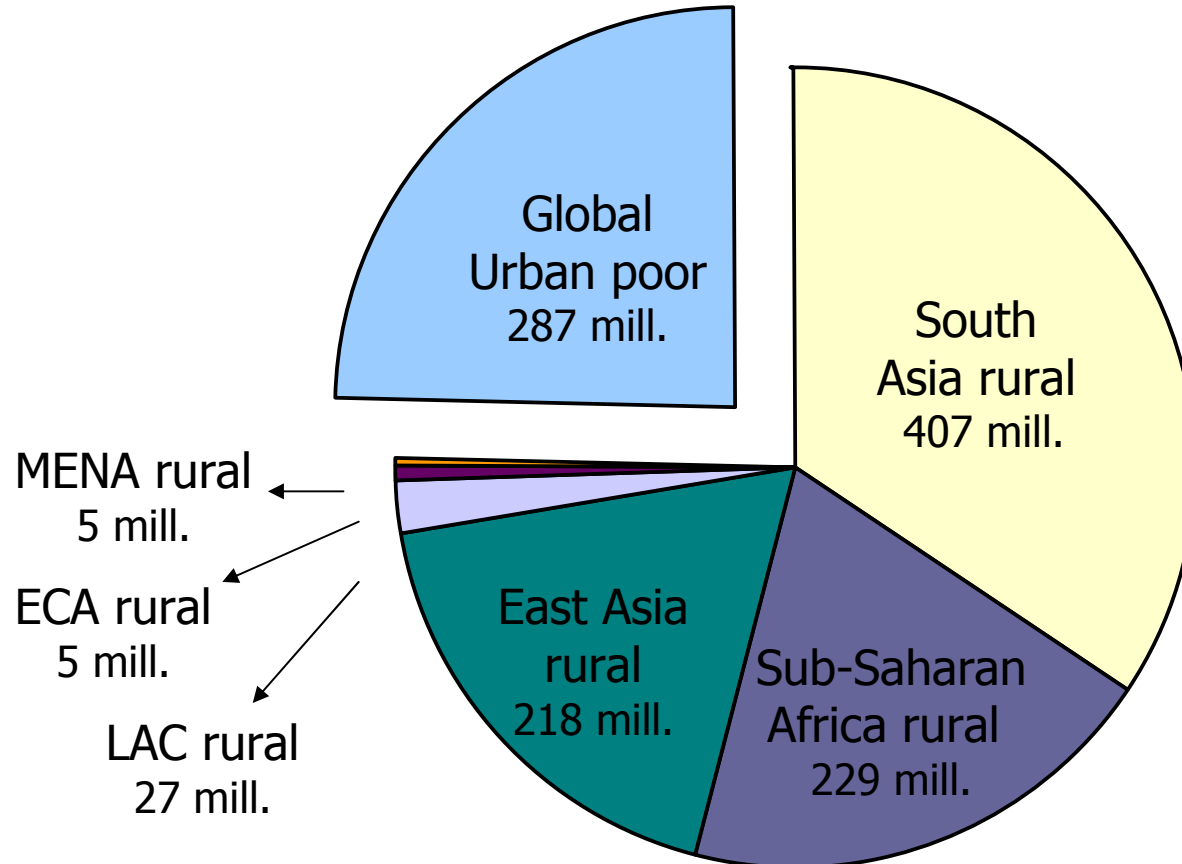
- Large sector for GDP growth
- Affordable food and wage competitiveness
- Comparative advantage in trade
- Strong growth linkages

**Accelerating agricultural growth in Africa**



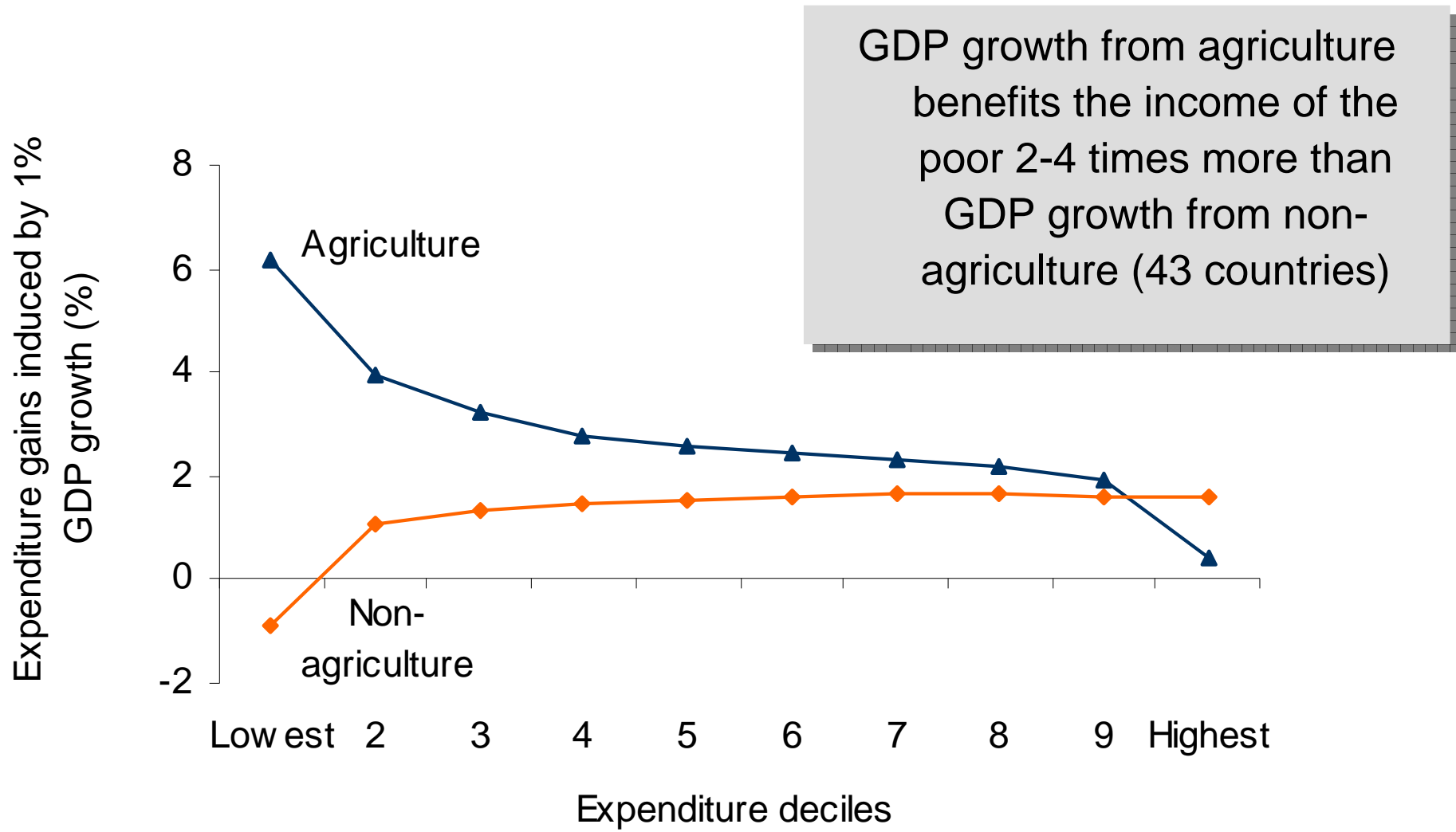
## 2. Poverty reduction

Global extreme poverty 2002, \$1.08 a day



- 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

# Growth from agriculture is especially effective for poverty reduction



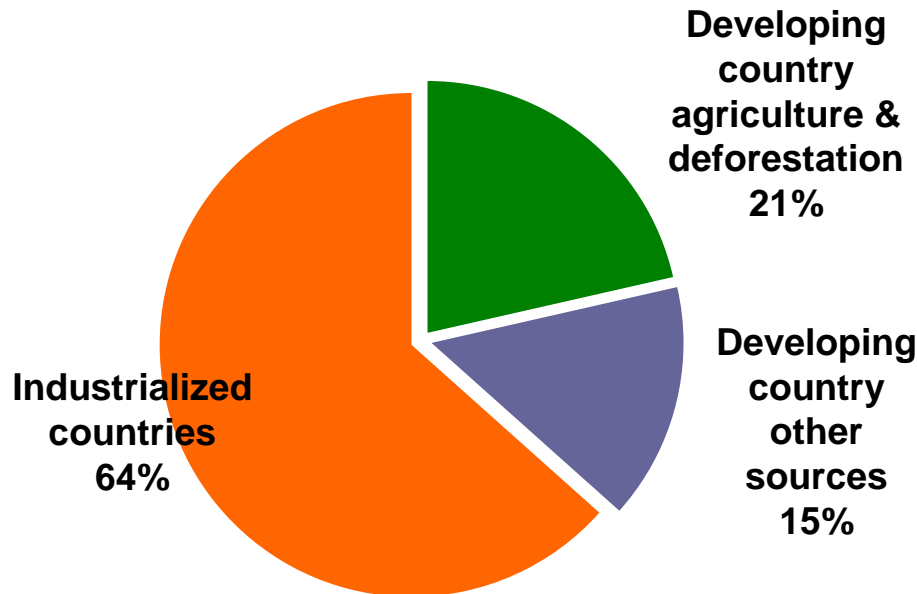
# 3. A source of environmental sustainability

## Important user of natural resources:

- 75% of fresh water resources
- 40% of land area
- 21+ % of greenhouse gas emissions

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

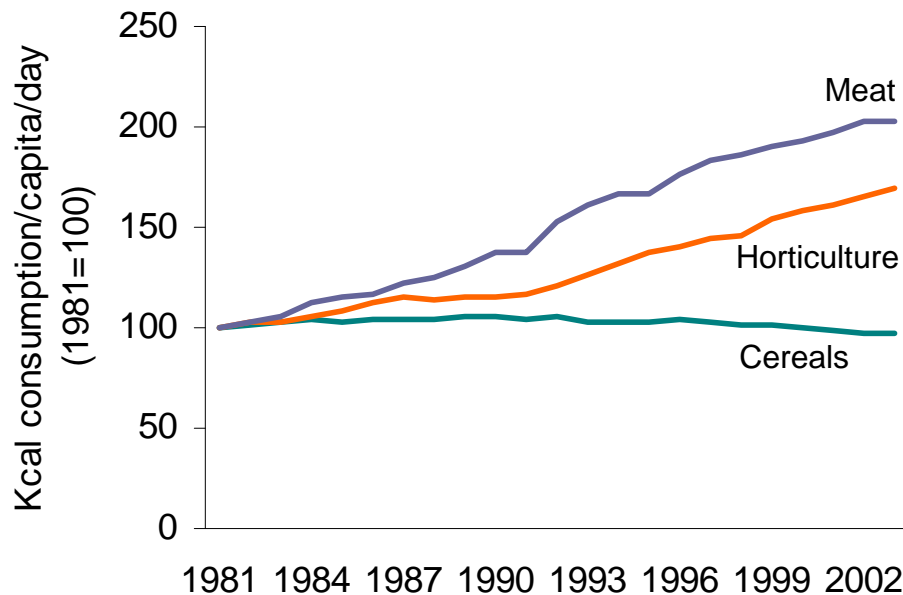
**Contributions to greenhouse gas emissions**



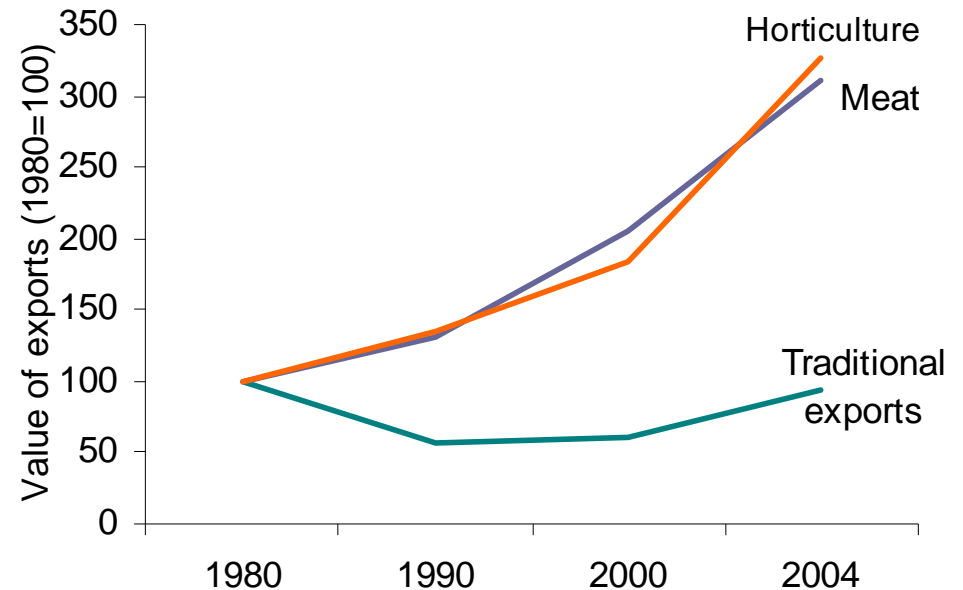
# Agriculture for Development: Improved Opportunities

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

Developing country  
consumption



Developing country  
exports





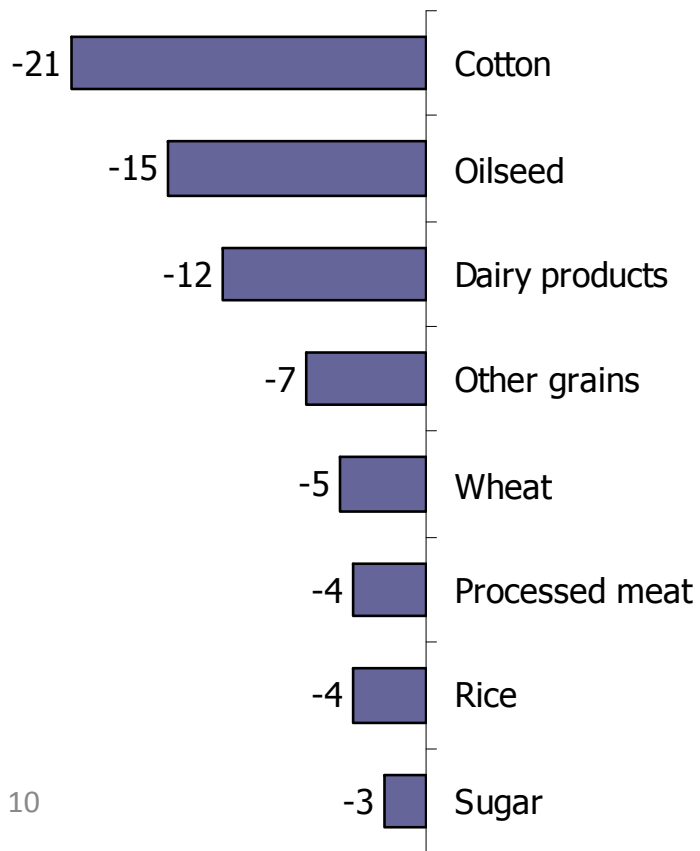
# Agriculture for Development: Improved Opportunities

- 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

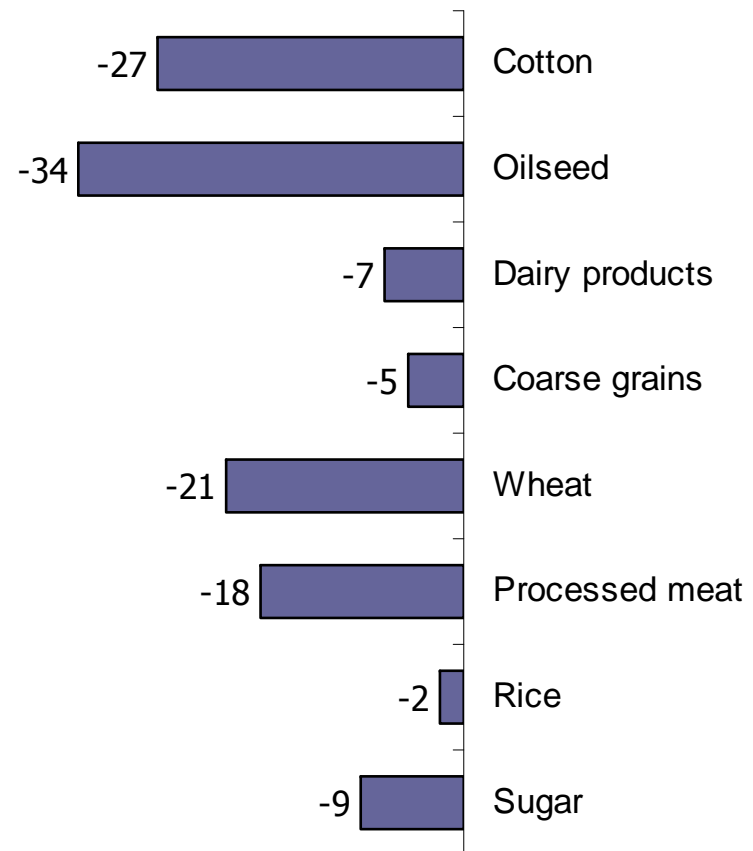
# But Major Challenges...

Global trade distortions remain pervasive

Real international commodity prices have been suppressed by current global trade policies (% of price)



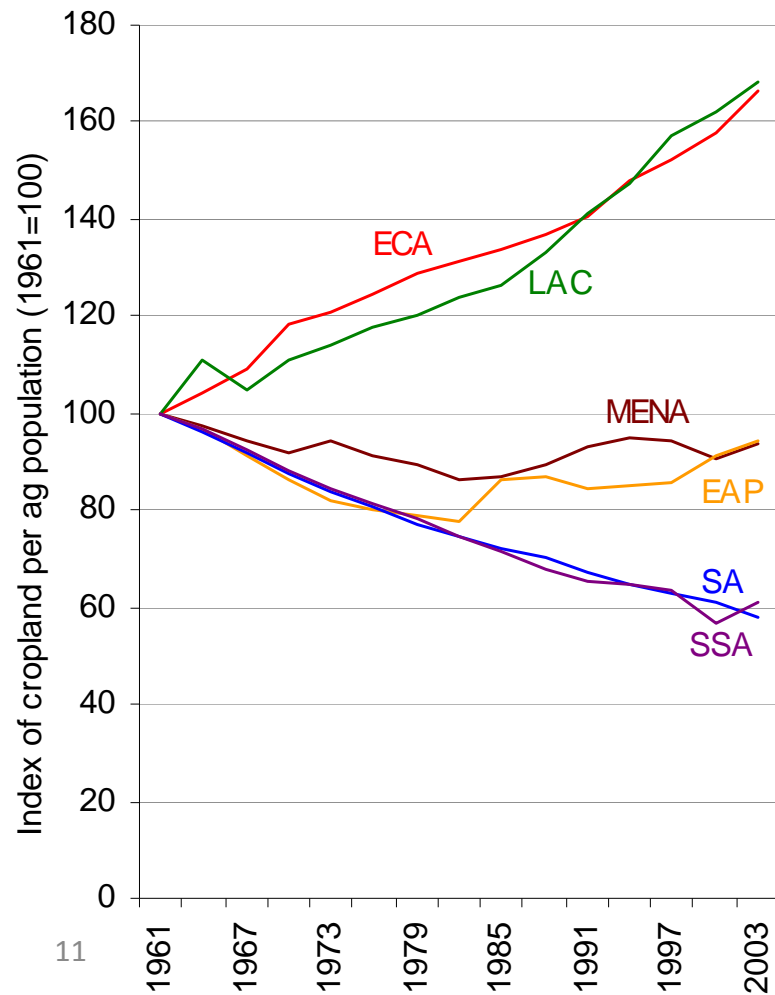
Trade share losses to developing countries due to current global trade policies (% point loss to developing country trade shares)



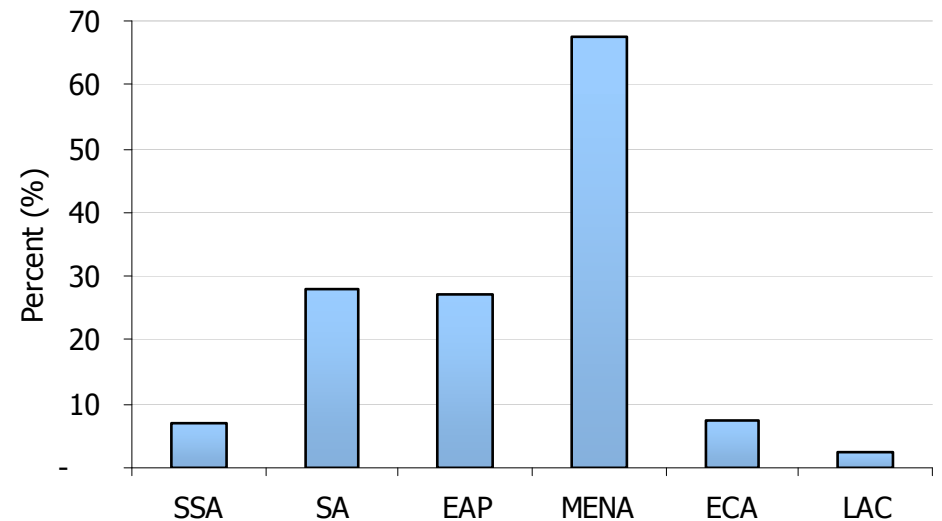
# Challenges

## Increasing land and water constraints

Cropland per capita of agricultural population



% of population in absolute water scarcity

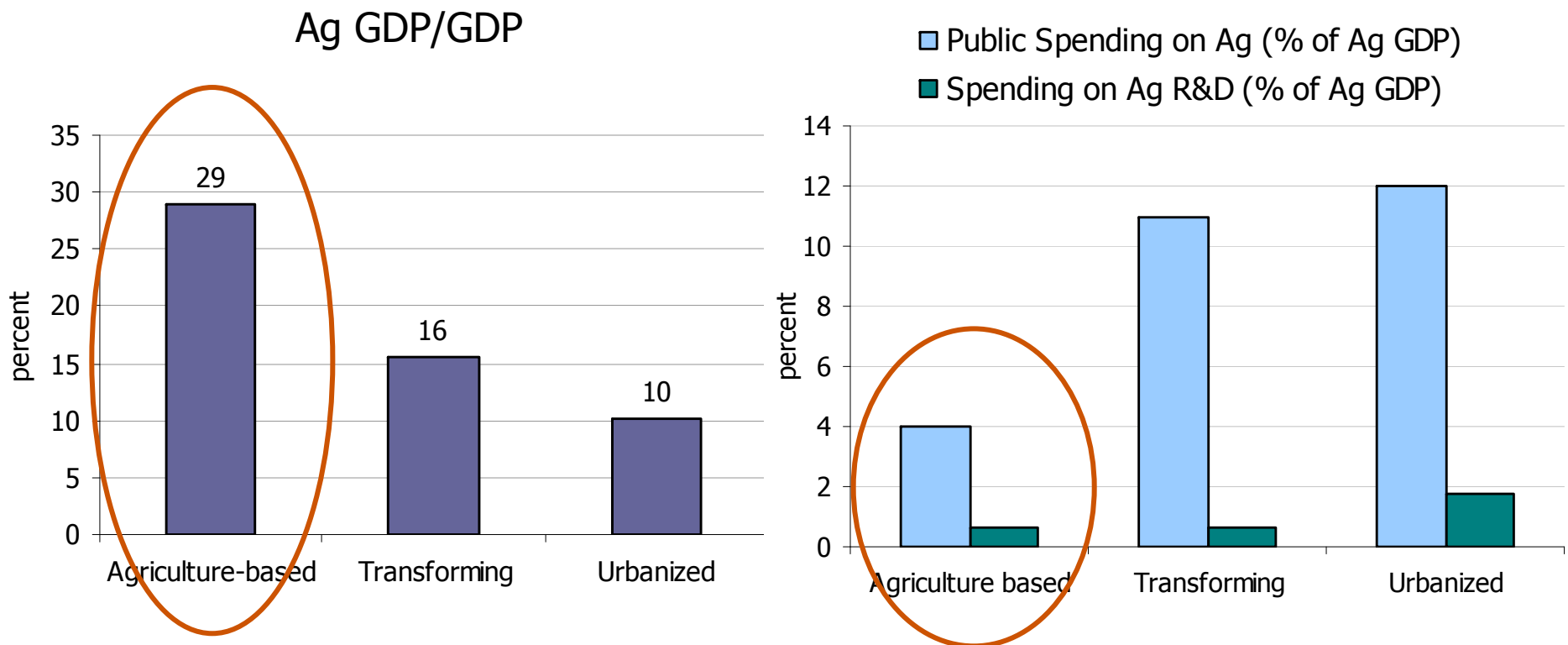


# Challenges

- **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)

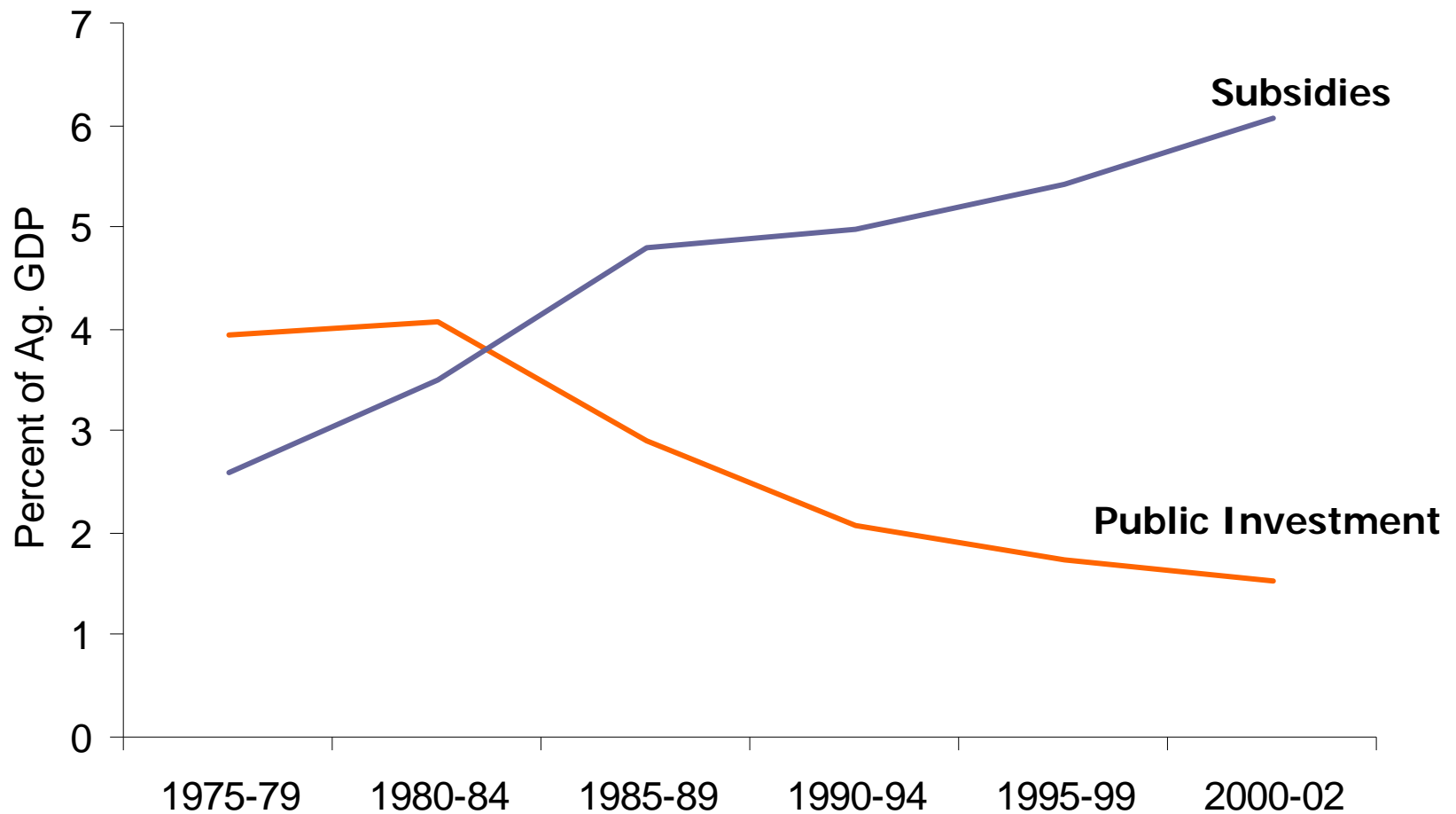
# Challenges

Agricultural-based countries spend too little on agriculture (and R&D)



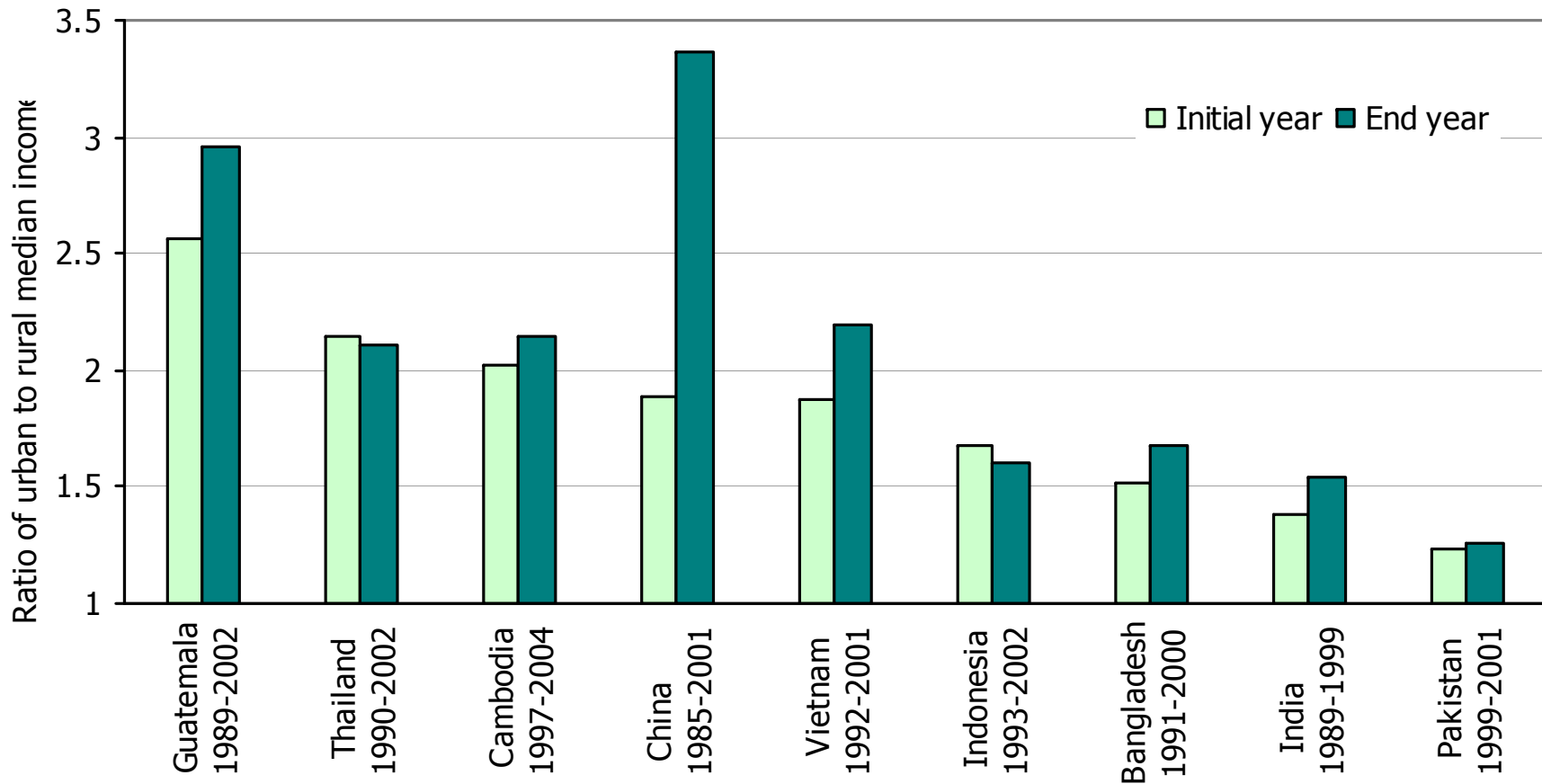
# Challenges

“Misinvestment” is also pervasive



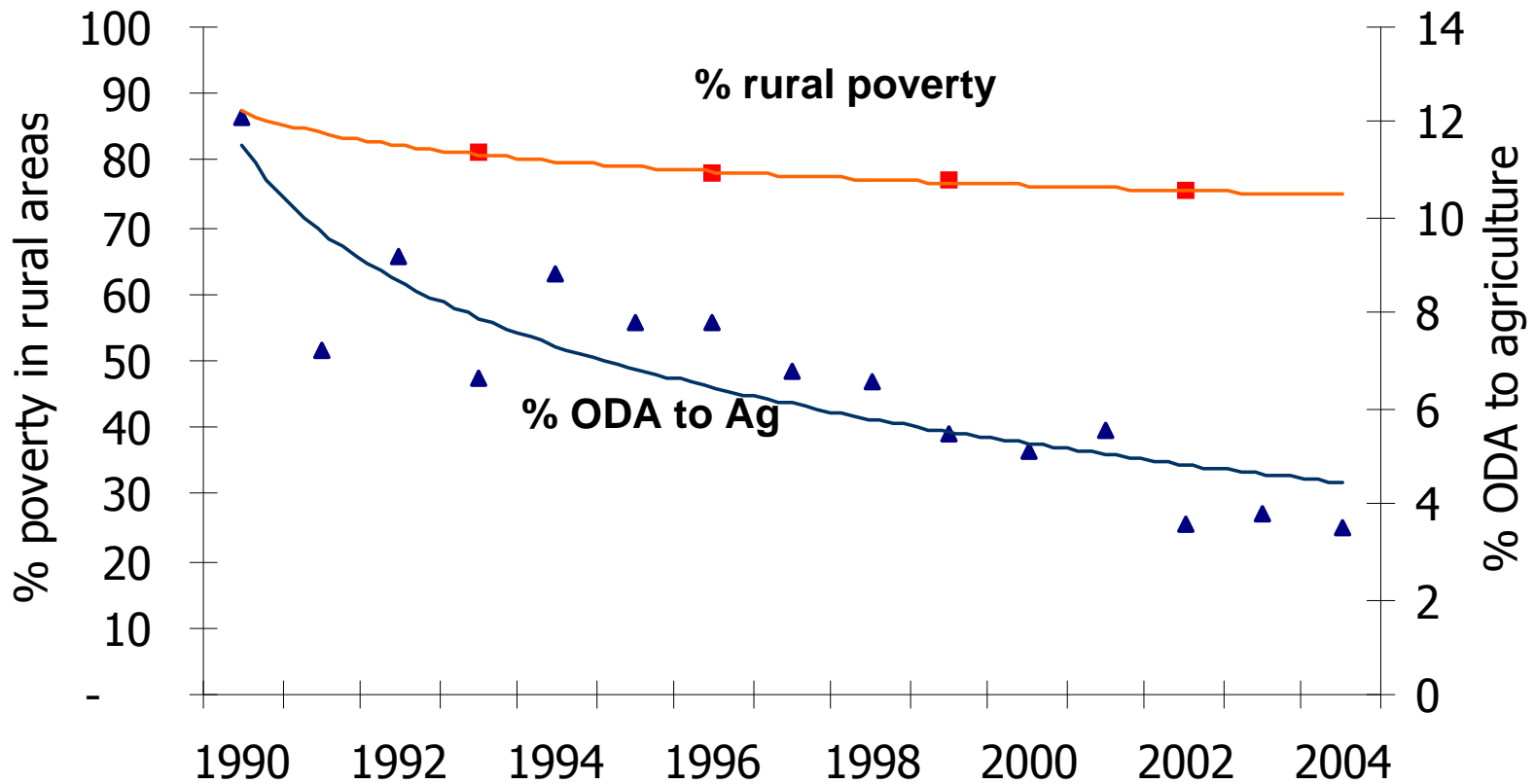
# Challenges

## Rising rural-urban disparities



# Challenges

## Donor support 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%**

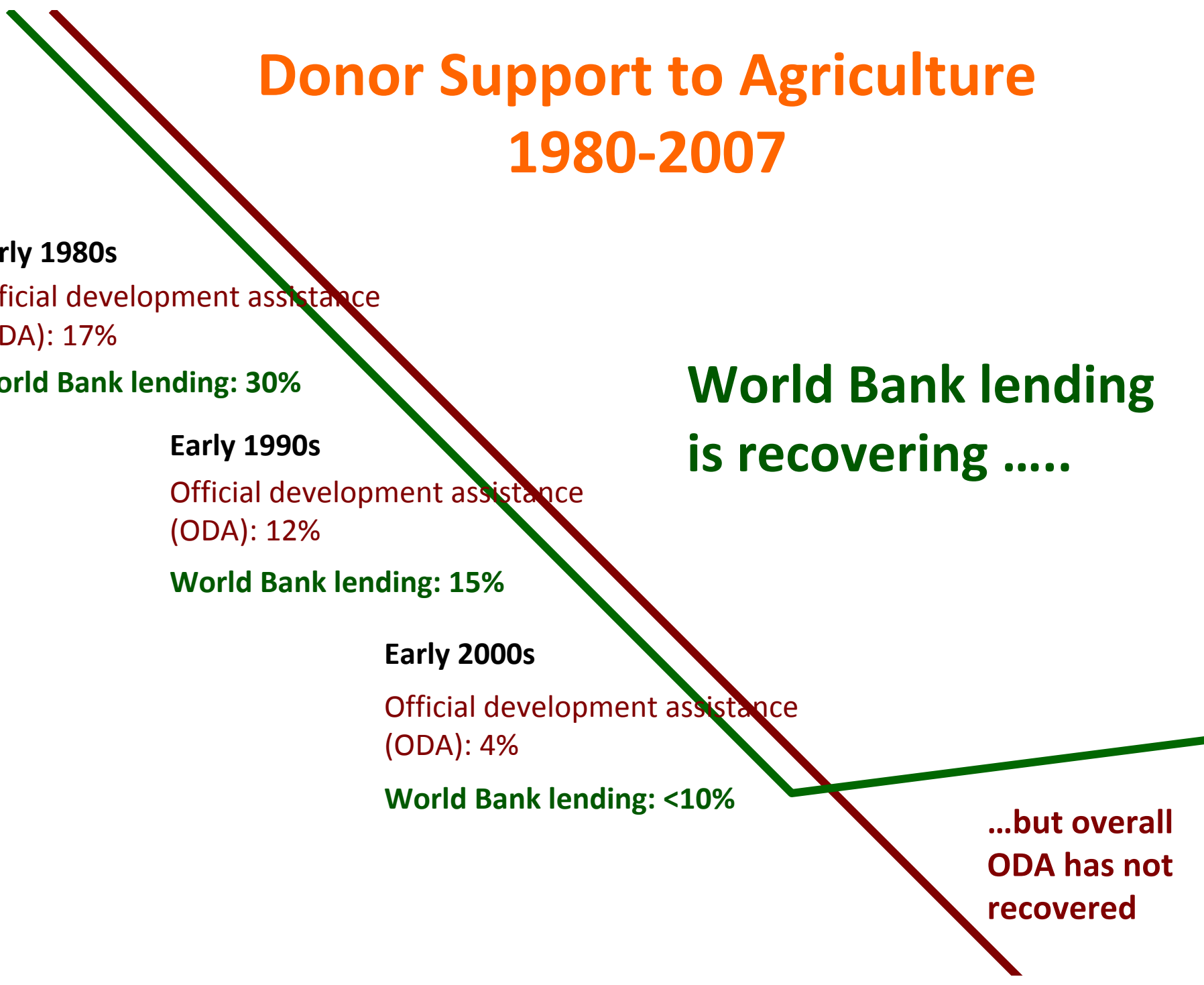
## Early 2000s

Official development assistance  
(ODA): 4%

**World Bank lending: <10%**

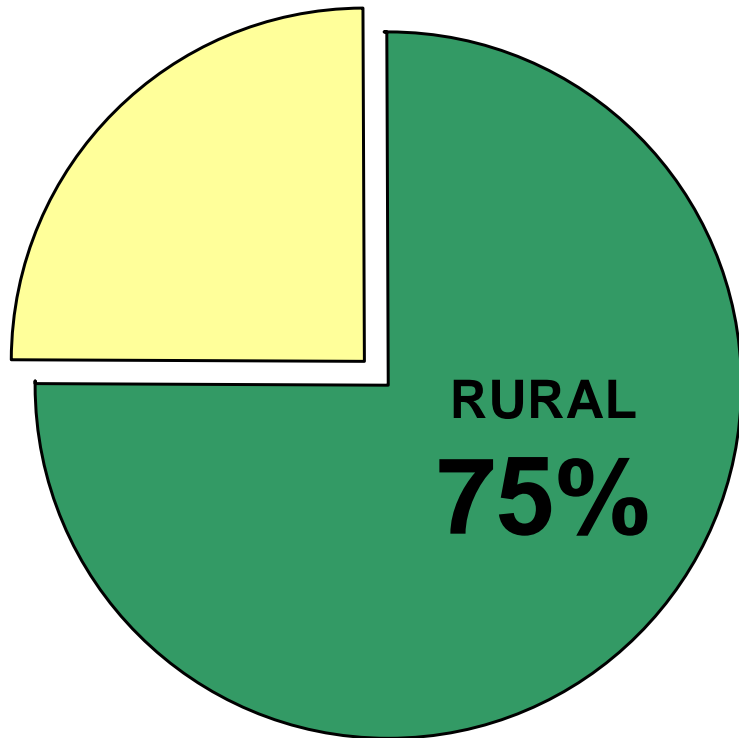
**World Bank lending  
is recovering .....**

**...but overall  
ODA has not  
recovered**



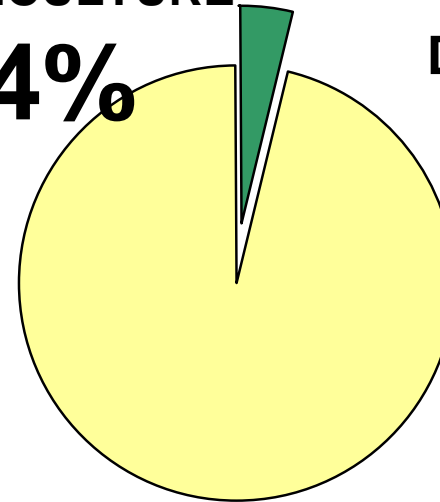
# Challenges

**WORLD POOR**



**AGRICULTURE**

**4%**

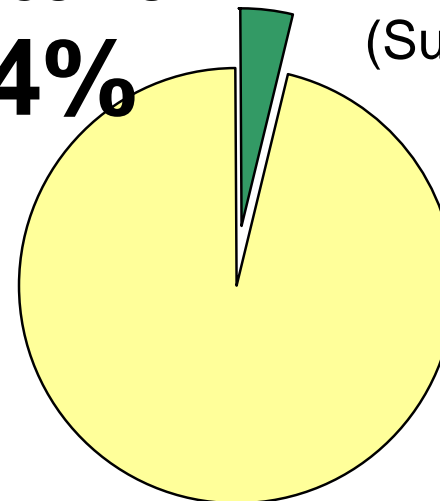


**OFFICIAL DEVELOPMENT ASSISTANCE**

(12% in 1990)

**AGRICULTURE**

**4%**



**PUBLIC SPENDING**  
(Sub-Saharan Africa)

# 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?

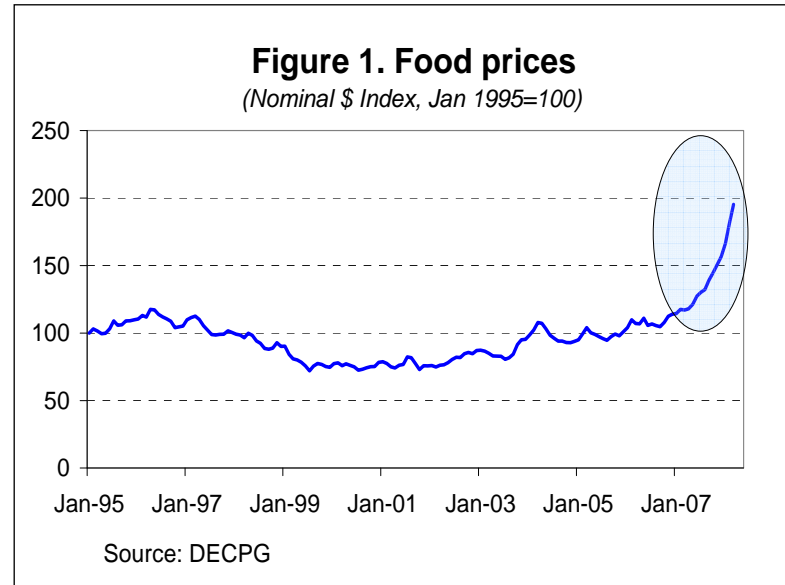
- Rising food prices risk losing recent gains in reducing **malnutrition**. Malnutrition threatens this -- and future -- generations.
- Already hunger and malnutrition are the underlying causes of **death of over 3.5 million children** every year.
- Not a temporary phenomenon – high food prices are expected to **stay high in the medium term** (above 2004 levels through to 2015).

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# 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



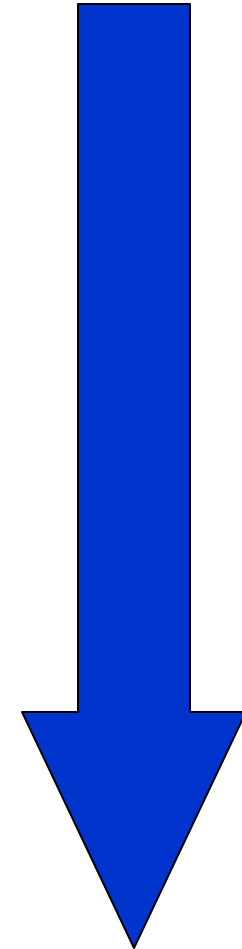
# Food Prices: Major Policy Messages

- **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

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

## 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<sup>st</sup> century agriculture remains fundamental for poverty reduction, economic growth and environmental sustainability.

[www.worldbank.org/wdr2008](http://www.worldbank.org/wdr2008)

[www.worldbank.org/ard](http://www.worldbank.org/ard)

[www.worldbank.org/html/extdr/foodprices/](http://www.worldbank.org/html/extdr/foodprices/)