

# High Global Food Prices

## *The Challenges and Opportunities*

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- ▼ *High food prices are not only causing a humanitarian crisis, but also putting at risk the development potential of millions of people. Global agriculture markets are undergoing structural changes, and the next three to four years will pose great challenges for achieving an affordable and accessible food supply for the world's most vulnerable. Soaring food and fuel prices are creating a "perfect storm" for the world's most vulnerable. The consequence is that the bottom billion could become the bottom 2 billion overnight, as those living on US\$1 a day see their purchasing power cut in half.*

Many people have asked, what has turned this challenge into a crisis? At the World Food Programme (WFP) we have seen perhaps the most aggressive pattern of global price increases ever for food commodities, starting in June 2007. From 2002 to 2007, the cost of procuring basic foods for our program increased by 50 percent, and then by another 50 percent from June 2007 to February 2008.

I believe the world may be entering the third phase of this crisis for the world's most vulnerable nations. During phase one, which started about four years ago, prices began a steady climb and national food and cash reserves were drawn down to all-time lows. Phase two began in June 2007, when aggressive price increases exhausted all coping strategies. Under phase three, many nations and populations have become dependent on external assistance to avoid widespread human suffering and ensure affordable access to adequate food.

During this phase, WFP assessments show that the most vulnerable populations

are running out of coping strategies. People living on less than US\$2 a day have cut out health and education and sold or eaten their livestock. Those living on less than US\$1 a day have cut out protein and vegetables from their diet. Those living on less than US\$0.50 a day have cut out whole meals, and sometimes go days without meals. Phase three is characterized by a nutritional crisis, which requires critical action for groups such as children under two years old, who will suffer the effects of deprivation for life. Nations that are import-dependent are facing even greater challenges in accessing affordable food for their populations. The challenge is still more dramatic when soaring food and fuel prices combine with additional shocks such as drought, as is now occurring in the Horn of Africa; severe weather, as in Bangladesh or Myanmar; or floods, which have devastated many parts of Africa.

The world's attention has been awakened by the global food crisis. The demand for action has come across loud and clear. We



need to act quickly and comprehensively to meet this collective challenge. Comprehensive responses by national governments, with the support of the international community, are required and should include immediate emergency measures as well as medium- and long-term interventions and investments.

The United Nations secretary-general's food crisis task force, pulling together UN agencies, the World Bank and International Monetary Fund, and others, is launching a comprehensive framework of action to ensure investment in agricultural development, as well as efforts to meet the immediate humanitarian needs on the frontline of hunger through safety nets, targeted cash and voucher programs, and supplementary food distribution. WFP is working alongside its sister UN agencies—the Food and Agriculture Organization (FAO), the International Fund for Agricultural Development (IFAD), the

United Nations Children's Fund (UNICEF), and others—and partners like the World Bank, non-governmental organizations (NGOs), regional financial institutions, and others to ensure that the most urgent needs are met.

## MEETING HUMANITARIAN NEEDS

As the world's largest humanitarian agency, WFP will provide food assistance in 2008 to approximately 90 million vulnerable people in some 80 countries throughout the developing world. WFP is also the logistics coordinator for the UN system, running a global network of planes, ships, trucks, and, when needed, camels, donkeys, and elephants to link with a vast network of warehouses.

WFP is at the forefront of action, and its toolbox is well embedded into the world's core strategic, policy, and operational responses. For this year, WFP requires an estimated total

US\$6 billion to reach hungry people, against which a total contribution of US\$2.8 billion has so far been confirmed.

In the immediate term, emergency assistance needs to be launched or safety-net programs need to be expanded to meet the urgent needs of those who are unable to produce or purchase sufficient food. In terms of emergency response, WFP has heard the call of many nations seeking assistance, and we are rolling out an additional US\$1.2 billion of food assistance to meet urgent needs in 62 of the most vulnerable countries.

In Afghanistan, for instance, we have scaled up food assistance to an additional 2.5 million people—almost half of whom are urban dwellers—who faced increased food insecurity because of higher food prices, on top of widespread conflict and severe destitution. WFP is infusing another US\$73.4 million to meet new urgent needs.

As high prices and drought sweep through the Horn of Africa, we are, for example, in Ethiopia responding to the urgent needs of 4.5 million people—many of whom are pastoralists and agro-pastoralists and who risk losing their livelihoods altogether due to the drought in the Horn of Africa, high food prices, and exhausted coping mechanisms—with US\$193 million.

In Haiti, WFP is tripling the number of

people we reach with food, from 800,000 to 2.3 million, with an urgent infusion of US\$23 million in addition to our current US\$48 million program. WFP's assistance in Haiti consists of targeted food distribution and hot meals in schools, provision of nutrition for mothers and young children, and take-home rations for poor urban families at the start of the school year when the costs of school fees and uniforms make ends hard to meet.

## FOSTERING DEVELOPMENT

WFP is also deploying a wide and nuanced range of tools in time for the global food crisis. For example, the WFP brings in commodities when necessary, such as in Darfur, where we provide critically needed food to more than 3 million people every day. It also relies on local purchases in cases where there is no food on the shelves but there is food on the farms and no infrastructure to get it out. The WFP also uses targeted food vouchers, as we did in Pakistan, or cash, as we did in Indonesia in the 1990s and more recently in Myanmar.

We also use our food-for-assets programs to help train local populations. Over the past four decades, together with experts from the FAO, we have planted more than 5 billion trees in the developing world, helping stabilize soil. We have also de-mined and built tens of

## Vouchers for the Vulnerable in Pakistan

**W**FP's food voucher program in Pakistan has been active since 1994 and reaches about 47,500 beneficiaries every year. Beneficiaries, mostly women, receive an average of US\$23 per year as part of asset-creation activities. Among other accomplishments, since 2001 about 15 million trees were planted under the program and 15,300 latrines and 17,300 water tanks were built. In 2008, 68 small retailers and 19 bank branches were involved, while vouchers worth about US\$1.2 million are injected into local markets every year.



thousands of kilometres of vital feeder roads, including reopening more than 10,000 kilometers of roads in the Democratic Republic of Congo (DRC), Angola, and southern Sudan in the past few years. In 2007 the government of southern Sudan became one of WFP's top 10 donors, as we partnered with them to reopen roads for farmers and build schools and hospitals through food-for-work programs, which allowed us to reduce dependency and cut general food distribution in half.

School feeding is another critically important program response. WFP works with governments and communities to provide

food to some 20 million children through school feeding each year. A humble cup of food or date bar or biscuits can revolutionize a child's life. We must help make schools the center of life and improve attendance, especially for girls.

Helping countries out of the crisis also means helping them to climb the development ladder, which will build resilience. Many activities employed during an emergency will have positive effects on development, in particular those focusing on nutrition and those that prevent negative coping strategies. In addition, steps must be taken to foster

## Supporting Small Farmers

**W**FP has been procuring food locally for decades and spent more than US\$1.2 billion in food purchases in Africa alone from 2001 to 2007. In 2007, 80 percent of WFP's overall food purchases were made in developing countries, representing more than US\$612 million or 1.6 million metric tons. Fifty-six percent of the total quantity purchased was procured in least-developed and low-income countries, while 24 percent was procured in middle-income developing countries.



the productivity of small farmers and better connect them to markets; invest in effective safety-net systems; and enhance disaster preparedness and risk-management capacities.

### **Spurring Productivity and Market Connectedness of Small Farmers**

WFP has been revolutionizing food aid to transform it into an investment in developing countries that is sensitive to local markets and helps bring lasting solutions to hunger.

Today, WFP is one of the largest purchasers of food in the developing world. Eighty percent of our cash for food is spent in 70 developing countries. For example, during the recent floods in Mozambique, there was plenty of food on local markets, but the food could not reach the victims and they could not afford to buy it. WFP thus purchased 80 percent of the food for the victims from Mozambican farmers, creating a win-win solution. Similarly, in Senegal most of the salt we use for our program there is procured from village salt producers. WFP helps these

producers iodize the salt and thereby address goitre—what President Wade called one of the biggest health challenges in Senegal.

Win-win solutions like these use food assistance to break hunger at its roots. They are part of what I call WFP's 80-80-80 solution: 80 percent of our cash used for food purchases is invested in developing countries; 80 percent of WFP's land transport and warehousing is procured in developing countries; and 80 percent of our staff in the field is hired locally in developing countries. This adds up to an investment of more than US\$2 billion in developing-world economies that helps nations and villages help themselves and makes farmers part of the solution.

With support from the Bill and Melinda Gates Foundation and the Howard G. Buffett Foundation, WFP is launching the Purchasing for Progress (P4P) initiative to ensure that our procurement helps break the cycle of hunger. Under P4P, WFP uses its purchasing footprint to give smallholder farmers the support they need to overcome obstacles to increased production, distribution, and access to markets. WFP food procurement practices are thus

becoming more supportive to low-income farmers, while WFP's presence is leveraged to catalyze innovations in African agricultural markets that lower risks and costs and increase ability to work in those markets. Such investments will improve low-income farmers' abilities and incentives to invest in yield-enhancing technologies, to produce and sell surpluses, and to raise their incomes.

### Investing in Safety-Net Systems

In general, safety-net systems include transfers, access to food through basic services such as school feeding, and insurance options. Ideally, such systems would be domestically financed by governments to meet the needs of their citizens, as they are in Europe, North America, and parts of Asia and Latin America. Only a few developing countries, however, can currently afford such systems. For most developing countries, international assistance fills the gaps temporarily while helping to create the conditions under which programs can be handed over to governments and national safety nets can be established.

Countries have different capacities to introduce and scale up safety-net systems, and recommended actions should be tailored

to meet context-specific challenges and needs. For example, a number of very low-capacity, often postwar, countries do not have formal safety-net systems in place (such as Afghanistan, Somalia, and Sudan). In those cases, donors often provide safety nets, mostly in the form of emergency relief.

In other contexts, elements of safety-net systems may be present, although they are often uncoordinated, of short duration, and limited in scale (such as in Bangladesh, Ethiopia, and Malawi).

In yet other circumstances, countries have fully institutionalized national safety-net systems, almost entirely domestically funded by governments (such as Brazil, Mexico, and South Africa).

Therefore, the expansion of safety-net systems in low-capacity contexts would be based mostly on humanitarian assistance, while at the same time investments should be made to build capacities for safety nets in the medium and long term. In higher-capacity countries, the expansion of existing safety nets may be possible, while improvements should be made to make safety-net systems more flexible, effective, and efficient.

When appropriately designed, safety nets

## Expanding Safety Nets during Crisis

**A**s a response to high food prices, WFP is scaling up school-feeding safety nets, including an extension through summer months, to help ease the impacts of food costs on poor families and ensure that children receive basic nutrition. In Mozambique, WFP targeted an additional US\$7 million to expand social safety nets for highly vulnerable populations through school feeding, supplementary feeding, and general feeding for AIDS patients. In Ethiopia, WFP supports the national Productive Safety Net Programme, which reaches 8.3 million people, and is now working with the World Bank on designing and implementing safety nets specifically targeting urban areas.

provide timely support to prevent the adoption of negative coping mechanisms. At the same time, safety nets can foster economic growth by investing in human capital, improving risk management, addressing some market failures, and reducing inequality.

## Disaster Preparedness and Mitigation

In many countries, the end of one disaster often becomes the precursor of the next, either because the first shock has undermined the resilience capacities of countries and communities or because there is an underlying low level of disaster preparedness. There may be other destabilizing pressures—such as high food prices—that can affect resilience at its core, often compounded with other factors such as the impact of climate change.

Humanitarian needs caused by disasters are increasing, and so are the human, social, and economic costs associated with these events. In the 1980s, around 170 million people were affected by climate-related disasters. Between 2000 and 2004, this number was 262 million, of whom 98 percent are in developing countries. Climate-related disasters are likely to be an increasing

problem, and WFP has thus made disaster preparedness and management a key objective of its strategic plan for 2008–11.

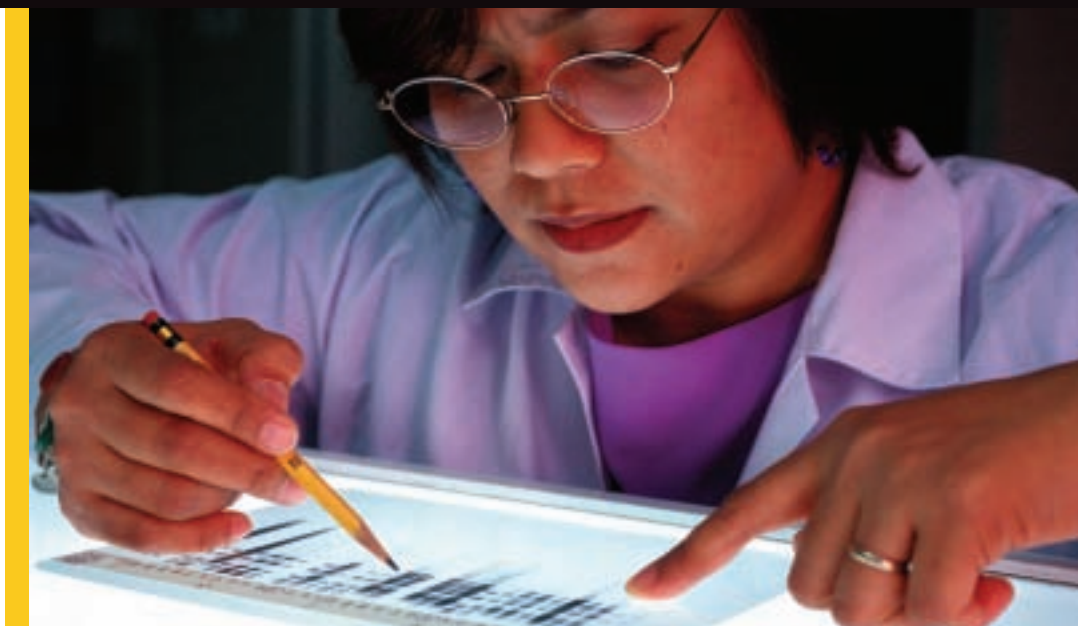
WFP is already working with communities in many parts of the world to ensure that fragile food security ecosystems are kept intact and sustainable. WFP has worked with communities to build tens of thousands of canals and dykes, restore river beds, and take other practical steps to protect food systems. It is also working with governments to establish early warning systems for droughts and floods. Last fall, warnings helped thousands escape the worst effects of Cyclone Sidr in Bangladesh.

## THE WAY FORWARD: CRISIS AS AN OPPORTUNITY

High food prices are hitting the world's most vulnerable people hard, and we need to protect them with safety-net systems, now and tomorrow. We need to expand such systems where they exist and introduce them where they do not. Insurance and other risk-management products will also help by reducing people's uncertainty and provide a better basis for planning for the future.

## Insuring against Disasters

In 2006, WFP piloted the world's first insurance contract with AXA Re for humanitarian relief in Ethiopia. Under the pilot, funds would have been triggered to support people in need based on trends of a weather-based index. In 2007, such an index was refined in partnership with the World Bank, the U.S. Agency for International Development (USAID), and the U.K. Department for International Development (DFID). In 2007, the government of China requested the assistance of WFP and IFAD in designing and piloting drought and flood risk management instruments for the vulnerable in rural China.



At the same time, high food prices and increasing demand present a huge, historic opportunity to reverse the neglect of agriculture and increase the incomes of small farmers in the developing world. By 2050, with the growth in demand, the world needs to produce twice as much food. This need simply cannot be met without huge investment in the world's poorest farmers by governments, the private sector, and the international community.

Agricultural research should be increased, while agricultural productivity should be fostered by investing all across the value chain, in seeds and fertilizers, water, infrastructure, human and physical capital, and all the other inputs required for competitiveness in a globalizing world. WFP supports the call by the World Bank, FAO, and IFAD to invest in fertilizer and seeds, and FAO Director-General Jacques Diouf has estimated that US\$1.7 billion is needed urgently.

WFP also faces a new challenge, however—the increasing export restrictions and bans in many countries. These restrictions

make it difficult for WFP to acquire and move much-needed humanitarian food around the world. WFP is urgently calling on all nations to exempt humanitarian food purchases and shipments from these restrictions, and we call on donors to ensure that earmarks and restrictions do not limit our ability to reach those in urgent need.

I will conclude on a note of optimism: we can defeat hunger. The world today is producing more food and nurturing more people than ever before. In fewer than 40 years, the world has cut the proportion of hunger in the developing world in half, from 37 percent in 1969 to 17 percent in 2003. We can achieve global—and local—food security. The world knows how to do this. High food prices now threaten to short-circuit this potential and undo many of these hard-earned gains. But crises can create opportunities. Only by pulling together, in the spirit of global interdependence, can we respond strategically to this challenge. So let us act together now.

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