

G8 Hokkaido-Toyako Summit

Double Jeopardy: Responding to High Food and Fuel Prices

July 2, 2008

World Bank



SUGGESTED ACTION ITEMS ON FOOD PRICES FOR CONSIDERATION BY THE G8

A New Deal for Global Food Policy: A 10-Point Plan

Support immediate needs and dampen the worst effects of the crisis on vulnerable populations:

1. Continue to fully fund the World Food Program's emerging needs, increase the flexibility of use of these funds (removing earmarked and tied aid), and support its drive to purchase food locally. Consider a partial UN assessment to meet ongoing increases in WFP requirements.
2. Support the expansion of social protection programs such as school feeding, food for work, and conditional cash transfer programs focused on the most vulnerable groups. Increase and/or front-load budget support to most vulnerable countries.

Provide financial and technical support to stimulate an agricultural supply response:

3. Ensure immediate provision of seeds and fertilizer for the most affected countries for the upcoming planting season; reform fertilizer policies to promote a mix that better matches soil conditions; provide technical support to improve production incentives.

Launch a new commitment to agriculture in developing countries:

4. Double total aid to agriculture to support investments in rural infrastructure, water and irrigation services, agricultural extension services, and post-harvest management. Increase funding going to global agricultural research and development.
5. Create an enabling environment to stimulate private sector led-investment in agri-business across the entire value chain.
6. Encourage innovative instruments for risk management such as crop insurance for small farmers.

Commit to re-examine policies towards bio-fuels in the G8 countries:

7. Agree on action in the US and Europe to ease subsidies, mandates and tariffs on bio-fuels that are derived from maize and oilseeds; accelerate the development of second generation cellulosic products.

Take leadership at the highest political levels to coordinate across major exporters and importing countries and break the price spiral:

8. Call for the immediate elimination of taxation or restrictions on humanitarian food aid (certainly for WFP purchases); end export restrictions by key producers on shipments to the least developed countries and those in fragile situations; increase Japanese rice donations and exports; initiate discussions with China to increase its rice exports, or donations, to 2-3 million tons.

Build a well-functioning international trading system that avoids the recurrence of such types of crises in the future:

9. Move swiftly with an ambitious Doha round with sharp reduction of producer subsidies and import tariffs.
10. Explore institutional options to monitor and share information on national stocks and global prices and determinants; explore agreement among the G8 and key developing countries to hold virtual 'global goods' stocks, perhaps for humanitarian purposes.

Double Jeopardy: Responding to High Food and Fuel Prices¹

1. Introduction

For the first time since 1973, the world is being hit by a combination of record oil and food prices. Such record oil and food prices are a destabilizing element for the global economy because of their potentially severe growth, inflation and distributional effects. In terms of their impact on income distribution, inflation and poverty, high food prices are of greater and more immediate concern than high fuel prices. However, the challenge of crafting appropriate policy responses to the food crisis is made much harder in a context of rising oil prices and ensuing fiscal and balance of payments pressures. The next few months will be critical for stemming this joint crisis and avoiding any potential ripple effects.

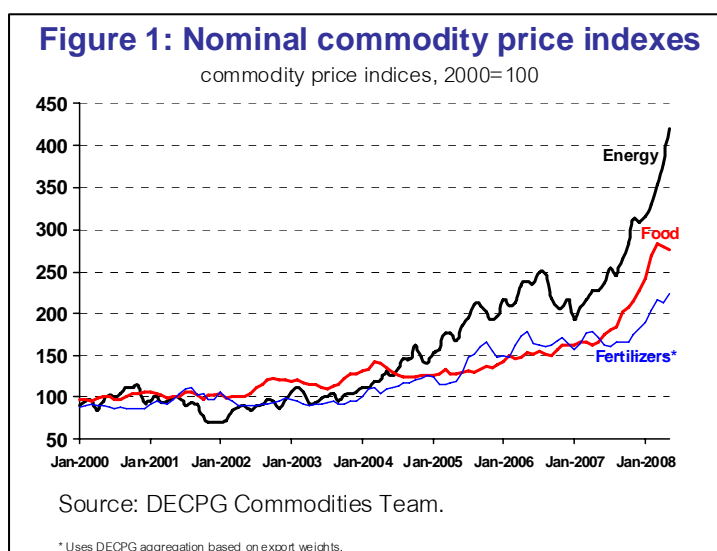
Compared to the earlier price increase in oil that occurred between 2003 and 2005, developing countries are more vulnerable to the recent increases. The terms-of-trade effects of the combined food and energy price increases since January 2007 are in excess of 10% of GDP in more than 15 countries and the room to maneuver on the macroeconomic front is limited. Continued high and volatile food and fuel prices will aggravate inflationary pressures, constrain fiscal expenditures for vulnerable groups and further endanger the poor. As underscored by G8 Finance Ministers, the high food and energy prices pose a serious challenge to global economic stability and growth, and risk reversing years of progress in many poor countries.

The International Community is facing an unprecedented test: the question is whether we can act swiftly enough to help those most in need. For globalization to work fully, it must be inclusive and sustainable. This means acting now in the interests of the poor who are most affected by this double jeopardy of food and fuel crisis, and who are least able to help themselves. The G8 Hokkaido-Toyako Summit has the potential to spark accelerated action. We call on it to do so.

2. Food and energy prices: trends, drivers, outlook

2.1. Food prices

Food prices have accelerated sharply in 2008. Grain prices have more than doubled since January 2006, with over 60% of the rise in food prices occurring since January 2008 (Figure 1). Individual grain staple prices have increased even more, with monthly average wheat prices doubling since January 2006. Rice prices more than tripled between January and May 2008, with a slight price reduction in June. Grain prices are starting to dip as the 2008 crop is harvested, but poor weather conditions in the US

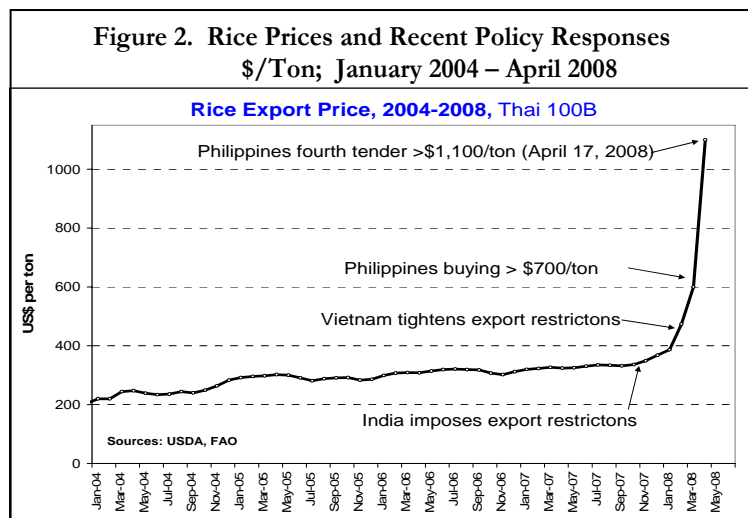


¹ Questions/comments are to be addressed to Hassan Zaman (hzaman@worldbank.org), Louise Cord (lcord@worldbank.org) or Ana Revenga (arevenga@worldbank.org), who are respectively Lead Economist, Sector Manager and Sector Director in Poverty Reduction and Economic Management, World Bank.

and Australia (mainly affecting maize and wheat output) and skittish commodity markets have kept prices relatively high, including in futures markets.

Prices have risen due to a number of individual factors, whose combined effect has led to an upward price spiral. Underlying structural factors contributing to rising food grain prices include high energy and fertilizer prices; the continuing depreciation of the US dollar; sharply increased use of both cereals and vegetable oils in bio-fuel production; and declining global stocks of food grains due to changes to buffer stock policies in the US and the European Union.² Back-to-back droughts in Australia, and growing global demand for grains (excluding for bio-fuel production) have been modest contributors and on their own would not have led to large price increases.³ Commodity investors and hedge fund activity also seem to have played a minor role. Although empirical evidence is scarce, the prevailing consensus among market analysts is that fundamentals and policy decisions are the key drivers of food price rises, rather than speculative activity.⁴

The effects of these underlying structural factors have been accentuated by the use of counterproductive policies on the part of key exporters and importers. The introduction of export restrictions and bans — such as those imposed by India and China on rice, or by Argentina, Kazakhstan, and Russia on wheat — has restricted global supply and aggravated shortages. Unilateral actions by exporting countries prompted others to quickly follow suit, undermining trust in the market and leading to worse outcomes for all. The result has been a self-reinforcing price spiral. The thinly-traded rice market has been especially vulnerable. India's decision last October to ban rice



exports (except for 'Basmati' rice) was quickly followed by export restrictions placed by Vietnam and other major players (recently modified to an export price floor in the case of Vietnam), with an immediate impact on prices (Figure 2). Actions by large rice importers, such as the Philippines, which organized large tenders to obtain needed rice imports against this background of shrinking traded supplies, have further aggravated the problem.

Source: Brahmabhatt M and L Christiaensen (2008) 'Rising Food Prices in East Asia: Challenges and Policy Options'

High food prices are likely to persist in the medium term. While forecasts in the current environment are subject to considerable uncertainty, we expect food prices will remain high in 2008

² Among these, the most important was the large increase in bio-fuels production in the US and EU in response to policies that subsidized production of bio-fuels, restricted their imports, and mandated their use.

³ Global grain demand (excluding bio-fuels) increased by 1.3% per year between 2000 and 2007 and in East Asia (including China) increased by only 0.3% annually during this period. The switch from basic staples as incomes have risen and the greater efficiency of livestock feeding has contributed to this slow growth in demand. Droughts in Australia have reduced exports by around 10 million tons of grains in 2006 and 2007, equivalent to about 4% of global grain exports.

⁴ The Commodity Futures Trading Commission reports that around 19% of outstanding rice contracts are held by non-commercial investors (e.g. companies that might be speculating as opposed to actually hedging against price moves).

and 2009, before they begin to decline. Prices are likely to remain well above 2004 levels through 2015 for most food crops (Table 1). These forecasts are broadly consistent with those of other agencies such as USDA and OECD-FAO. While world grain production is forecast to grow, increased utilization is expected to lead to a decline in stocks in the 2007/2008 crop year. FAO predicts that total grain end-stocks will reach a 25-year low by the end of 2008 (see Annex 1 for detailed production forecasts).

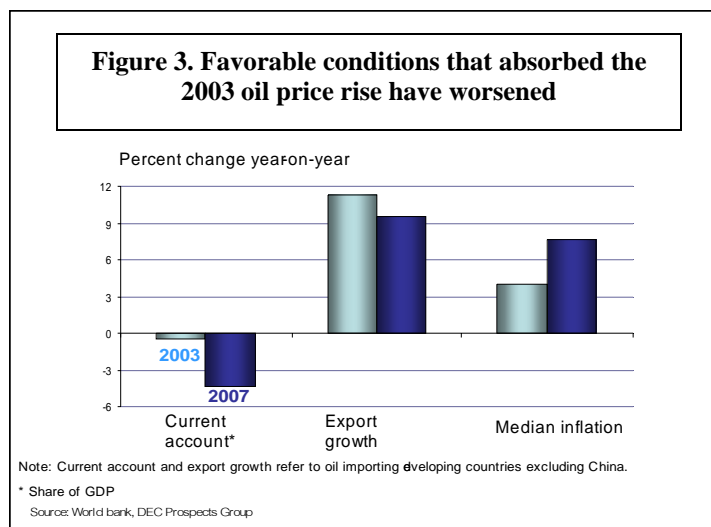
Table 1. Index of projected real food crop prices 2004=100					
	2007	2008	2009	2010	2015
Real Prices					
Maize	139	175	165	155	148
Wheat	154	215	191	166	140
Rice	130	243	208	183	160
Soybeans	119	156	147	139	115
Soybean oil	136	187	173	160	110
Sugar	133	157	167	176	182
<i>Source:</i> World Bank, DEC Prospects Group					

2.2. Oil prices

The rapid growth of the world economy in recent years has strained capacity of oil markets, resulting in an unprecedented price rise. Since 2001, the price of oil has risen from \$20 per barrel to over \$140, with prices more than doubling since January 2007. In real terms, oil prices are now higher than at any time in the last century. The run-up in oil prices was driven initially by a demand-driven tightening of market balances, but more recently has been further fueled by a combination of supply concerns and financial factors. Market tightness is expected to persist because of a sluggish supply response. Projections indicate that although demand pressures will ease as global GDP growth slows, oil prices will drop only modestly over the next two years. Oil prices are also likely to remain volatile, due to a combination of low stocks, limited spare capacity, supply disruptions, and uncertainty over exploiting new reserves and the development of non-oil sources.

3. *Vulnerability to food price shocks: poverty, distributional and macroeconomic implications*

Developing countries are facing the recent surges in food and oil prices in an increasingly fragile macroeconomic context, especially in the poorest countries. Many of the economic buffers that allowed countries to weather the 2003 and 2005 oil price shocks and the initial increase in food prices last year have been depleted. The current account positions of most oil importing developing countries have deteriorated, inflation and interest rates are on the rise – pushed by rising food and oil prices – and both GDP and export growth are slowing (Figure 3). As a result, developing countries – especially those with limited access to financial markets – will be less able to absorb recent price hikes without substantial and painful reductions in consumption, investment and non-oil import spending.



Rising food and energy prices are leading to a substantial redistribution of incomes from consumers to producers and are having significant negative impacts on many individual households, economies, and on global stability. The rise in oil prices has increased the oil bill of

developing country oil importers by \$971 billion cumulatively since 2003. Because food products are consumed mainly in the country where they are produced, the international wealth transfer from high food prices is less pronounced, but domestic transfers are similarly large. For consumers living in developing countries, the increase in international prices of maize, rice and wheat since January 2006 cost around \$324 billion in 2007 alone.

3.1. Poverty and Distributional Impacts

Preliminary estimates suggest that up to 105 million people could become poor due to rising food prices alone. A recent World Bank study in eight countries estimates that the increase in food prices between 2005 and 2007 increased poverty by 3 percentage points on average. Extrapolating these results globally suggests that, as a result of the rise in food prices, total world poverty may have increased by 73 million to 105 million people (lower and upper bounds depend on assumptions on the extent to which world prices are passed through to local prices – see Annex 2 for more details). Results from recent simulations suggest that the food price crisis could lead to close to 30 million additional persons falling into poverty in Africa alone.⁵ On the other hand, the poverty impact of rising oil prices is generally less, since a smaller share of household consumption goes to fuel and energy related products. As a crucial intermediate input, higher energy costs also affect prices of an enormous range of goods, especially related to transport.

Country examples are illustrative of the poverty impacts of the food crisis. In Liberia, the cost of the food basket for a typical household increased by 25% in January alone. As a result the poverty rate has risen from 64% to over 70%. In Yemen, the doubling of the price of wheat and bread has resulted in a 12% loss in real income of the poor. Such setbacks may reverse the gains made in reducing poverty over the last seven years. In Honduras, the rise in food prices is estimated to have increased poverty by four percentage points from 51% to 55%, while in Sierra Leone the food crisis has raised poverty by 3 percentage points, to 69%. In Djibouti, the increase in food prices over the past three years is estimated to have led to an increase in extreme poverty from 40% to 54% (See Annex 2 for more country-specific impacts).

Higher food prices may heighten inequality within countries. Recent increases in food prices in Bangladesh have not only increased poverty, but also raised the Gini index of inequality by five percent. This is due to the benefit that larger farmers accrue relative to smaller farmers and to the urban poor. Similarly, the effective rate of inflation faced by the poor in Latin America is 3 percentage points more than the official rate (see Annex 2) implying that rich-poor gaps are widening.⁶ In Vietnam, while a significant number of those close to the poverty line are net sellers of rice and benefit from rising prices, the poorest in rural areas benefit least and those in urban areas are worst affected.⁷ As a result, inequality across and within regions in Vietnam is likely to increase. The complexity of poverty and distributional impacts of rising food prices warns against sweeping, ‘one-size fits all’ responses.

Rising food prices are aggravating the vulnerability of children living amongst conflict, instability, HIV and drought. In East and Southern Africa, 12 million AIDS orphans are amongst those most vulnerable to rising food prices. In Somalia, 2.6 million (approximately 35% of the population, of which more than half are children) are already affected by a nutrition crisis caused by

⁵ Wodon, Quentin et al (2008) ‘*Potential Impact on Poverty of Higher Food Prices: Summary Evidence from West and Central Africa*’ Africa Region, World Bank (mimeo).

⁶ ‘Rising Global Food Prices – the World Bank’s LAC Region Position Paper’ (2008).

⁷ Recent estimates suggest that in the Mekong Delta, which produces the bulk of Vietnam's rice surplus, most poor farmers lose from the higher prices. In the Red River Delta, most poor farmers gain from the price rise because they are more dominant in the "net selling" category.

drought and prolonged conflict. As a result of rising food prices, many are now either skipping meals or are switching to cheaper and lower quality cereals. It is estimated that the number of people needing humanitarian assistance in Somalia could reach 3.5 million (or half the total population of Somalia) by the end of 2008.⁸

Even stable, high growth countries are not immune to the damaging effect of escalating food prices on child malnutrition. India, for instance, has double the rates of stunted children (47%) than in Sub-Saharan Africa (24%), and nearly five times that of China. According to UNICEF, 1.5 to 1.8 million more children in India are currently at risk of malnourishment, as households cut back on meals or switch to less nutritious foods due to rising food prices. In Vietnam, where 78 percent of the caloric intake of the poor comes from rice alone, the increases in prices could significantly affect the nutritional status of rural and urban poor alike. There are over 800 million undernourished people in the world, and this number could increase sharply as a result of the current crisis. The risks to several Millennium Development Goals are evident.

The poverty impact of rising oil prices is generally less than that of food prices, since household energy consumption shares are much smaller. The share of household incomes spent on fuel in most developing countries is less than 10 percent. However, as a crucial intermediate input, higher energy costs also affect prices of an enormous range of goods, especially transport-related, so that the indirect costs of rising oil prices on the poor could be substantial. Within countries, the urban poor are most affected by both food and fuel prices increases.

3.2. Macroeconomic Impacts

Rising global food and energy prices are contributing to high domestic price pressures in many countries and threaten to reverse past gains in stabilizing prices. Nearly all countries that managed to restrain annual inflation to under 7 percent during 2000-2005 are experiencing higher inflation in 2007-2008 due to rising food, fuel, and other commodity prices (see Annex 3). By early 2008, median inflation in developing countries had risen from 3.9 to 7.6 percent. Moreover, inflation exceeded 10 percent in more than one third of the developing countries for which monthly data are available versus less than one quarter in 2003. Inflation increased by more than 5 percentage points in at least 21 countries, including many oil exporters, with significant surges in domestic food price inflation over the past year in countries such as the Kyrgyz Republic (32%), Vietnam (26%) and Chile (16%). Even in countries where the food security situation is less precarious, such as Tanzania, the price of the key staple, maize, has doubled in the past year. Moreover, if food and fuel price increases are perceived as a persistent threat, they could affect inflationary expectations and feed inflation in the medium term.

The impact of rising food and energy prices on a country's balance of payments varies with the extent of dependence on imports and factors such as its level of reserves. Nearly all countries with the lowest capacity to import (measured by the value of food imports as a share of foreign exchange reserves) are in Africa (see Annex 3). Official reserves are falling rapidly in numerous developing countries, suggesting that the current response to higher food and fuel prices may not be sustainable. Oil importing countries whose import coverage ratio is declining rapidly include Tanzania, Rwanda and Morocco – although as of December 2007 all of these countries had more than 5 months of import cover.

Adjustment will be particularly difficult for those countries for which the terms-of-trade effect is large. These include countries whose economies are particularly energy intensive (or inefficient) and depend heavily on imported energy to satisfy domestic demand. Especially vulnerable

⁸ Food Security Assessment Unit, FAO, Somalia.

are small island economies and landlocked countries with higher than average transportation costs. Fragile states and countries with weak initial institutional frameworks constitute another set of vulnerable countries. For IDA countries in particular, the oil price shock has compounded the burden of higher international food prices and only in selected cases has this been compensated by improvements in non-oil non-food terms of trade.

The current account positions of oil-importing countries have deteriorated substantially since 2003. Higher fuel and food bills have resulted in a substantial deterioration in the current account positions of many developing countries. The deterioration has been especially marked in parts of sub-Saharan Africa, the Middle-East and North Africa and South Asia. Weak pass through of high oil prices in many countries has limited private incentives to conserve energy, notably in the latter two regions. In Europe & Central Asia large current account deficits also reflect strong capital inflows which have boosted money supply, domestic credit and demand pressures. As a result, countries are more vulnerable to reversals in capital market conditions. Moreover, those with limited access to capital markets may have to undergo significant real-side adjustment (lower consumption, investment and imports) to compensate for higher energy as well as food bills.

On average, the balance of payments effects of food price increases are smaller than those due to rising fuel prices.⁹ For example, the terms of trade impact on the balance of payments in Togo is equivalent to 19.7% of GDP for fuel and 4.5% of GDP for food; the corresponding figures in Tajikistan are 17.8% and 3.8%. Figure 4 presents the terms of trade effects of fuel and food on balance of payments and illustrates that poorer (IDA) countries have disproportionately experienced negative terms of trade effects from rising food and fuel prices. Countries with significant balance of payments pressures, particularly poorer countries, often face macroeconomic imbalances and restricted policy options to counter external shocks.

Many of the poorer countries that are more exposed to international food and fuel price shocks are also constrained in their fiscal capacity to cope with these shocks, and limited means to respond to inflationary pressures. Countries such as Sierra Leone, Eritrea, the Gambia, Haiti, Tajikistan, Togo, and Djibouti face potentially high fiscal costs as a result of the food and energy crisis, but have limited capacity to respond. Other countries such as Lesotho, the Kyrgyz Republic and Indonesia also face potentially high fiscal bills, but are less vulnerable in their fiscal capacity. Many of these governments will need to review the scope for reducing lower priority public expenditure and for adopting more efficient taxation policies, in order to help accommodate the additional fiscal costs generated by the need to respond to rising food prices. Efforts by the monetary authorities to lower inflation may prove difficult, as persistently high food and energy prices place further pressure on wages and other costs, and untargeted fuel and food subsidies add to fiscal spending.

⁹ Although the fuel price impact is dominant in most countries, for many small states that import most of their staple grains it is the food price impact that is more significant (e.g., Haiti, Eritrea, and Djibouti).

The simultaneous impact of severe macroeconomic and distributional shocks reduces the policy space within which many developing countries can maneuver, and raises the risk of more extensive spillovers among countries and possible systemic pressures as well.

4. Core pillars of an integrated global response to the food crisis

Rapid action by the international community is required to deflate the price spiral in world food markets, facilitate an orderly resolution of the crisis, and mitigate its adverse impacts.

The very nature of hunger justifies an urgent response, but the need for speed goes beyond supporting humanitarian assistance and safety nets to helping countries avoid short-run policies that shift the burden of adjustment to neighboring countries, or to subsequent years. Unchecked rises in food prices can undermine gains made over the last decade in reducing poverty and malnutrition. Inadequate policy responses can endanger years of progress on sound macroeconomic management and on agricultural diversification. At the same time, the crisis offers a window of opportunity to implement key medium-term reforms that address the underlying causes of the crisis and prevent it from recurring. The time is ripe for the international community to unite around a New Deal for Global Food Policy, articulated around the following ten core actions.

Support immediate needs and dampen the worst effects of the crisis on vulnerable populations:

- *Continue to fully fund the World Food Program's (WFP) emerging needs, increase the flexibility of use of these funds and support its efforts to purchase food locally.* Following the recent contribution of \$500 million from the Saudi government, the WFP's appeal for \$755 million to fill its current funding gap was met. The WFP estimates that an incremental \$5 billion is required to meet the needs of vulnerable groups facing rising food prices.¹¹ The effectiveness of contributions to the WFP can be enhanced when they are not earmarked. Some countries, such as Canada, have taken the significant step of untying all their food aid. More countries need to follow their example.
- *Consider applying a partial assessment through the UN to finance some of WFP purchases. WFP funds itself entirely through voluntary donations, unlike some UN agencies that are funded through annual UN assessments.* In the past, WFP raised about \$3.2 billion a year through voluntary pledges by governments. With the food crisis, that figure may double. These demands are likely to continue. It is likely to be increasingly difficult to raise \$5-6 billion of food assistance each year solely through voluntary pledges. Therefore, the international community should strongly consider an UN assessment for at least part of this amount.
- *Support the expansion of safety nets programs in poor and capacity-constrained governments.* Several hard-hit small countries require emergency food aid, nutritional supplements, and budget support in order to protect the vulnerable. For example, Haiti needs \$18 million of immediate budget support to expand existing school feeding programs and implement labor intensive food and cash for work programs and an additional \$5 million for balance of payment support. Similarly, Sierra Leone needs \$10 million for initial mitigation efforts through food or cash for work, school feeding, mother-child health support and emergency income-generating activities, as well as \$10 million to help compensate for the loss of revenue for import duty reductions in the next fiscal year.

¹¹ The overall estimate for WFP's program budget in 2008, including the food price related appeals, is approximately \$4.5 billion – out of which around \$2 billion has been received (Source: www.wfp.org)

Provide financial and technical support to stimulate an agricultural supply response and help ensure that small-scale farmers in low income countries are able to plant for the next harvest:

- *Provide financial and technical support to design and implement ‘market-smart and agronomically-intelligent’ subsidies for agricultural inputs targeted at small scale farmers.* The sharp increase in fertilizer prices combined with rising costs of fuel for irrigation have raised the costs of food grain production sharply over the past year. For example, in Tanzania, DAP costs are estimated to have increased six-fold, while the costs of fertilizers most commonly used in Africa have doubled. As a result, many small farmers are being forced to reduce their use of inputs, and/or their plantings. In such a context, well-designed subsidies aimed at poor and small-scale farmers who would not otherwise use agricultural inputs could be introduced for a limited period to boost yields. However, to control fiscal costs, these subsidies should be time bound and need to be part of an overall package of actions which includes investment in extension, research and rural infrastructure.¹² For example, Kenya needs \$6 million to enhance smallholder farmers’ access to farm inputs.
- *Technical support is also needed to improve production incentives.* Many countries set procurement prices for key domestic staples. It is important that these be adjusted to factor in higher input costs. Export restrictions also lower domestic production incentives and should be relaxed.¹³ In several East Asian countries rice yields could increase significantly by shifting fertilizer subsidies to encourage agronomically smart nutrient use and post-harvest losses could be lowered by 25% through better use of post-harvest technology and infrastructure. The extent to which consumption is concentrated on one staple food commodity is an important variable influencing household vulnerability to unstable food prices. Crop diversification, including into non-tradable crops (yams, cassava, sorghum), is therefore key to reducing the dependence on a narrow set of staples.

Launch a new commitment to agriculture in developing countries so as to lay the foundations of a long-term solution:

- *Double total aid to agriculture to support investments in rural infrastructure, water and irrigation services, agricultural extension services, and post-harvest management.* Investments in agricultural research and extension, soil fertility management, rural infrastructure and market access (irrigation, roads, transport, power, and telecommunications), and rural financial markets will allow the agricultural sector to take advantage of rising food prices, especially in Africa.¹⁴ IFPRI estimates that, in order to reach the first MDG of halving the proportion of the world’s poor and hungry by 2015, developing countries would require an additional \$14 billion per year in agricultural investment, with Sub-Saharan Africa alone needing \$5 billion of this amount per year.¹⁵ Interest by the Arab Gulf countries in investing in African agriculture is another promising avenue for channeling support which could benefit both regions.
- *Increase funding going to global agricultural research and development.* Agricultural research needs to be expanded to develop new seed varieties, achieve stable multiple pest and disease resistance, and deliver quantum yield increases. The Consultative Group on International Agricultural

¹² See World Bank (2008) ‘World Development Report: Agriculture for Development’

¹³ For example, preliminary evidence suggests that Argentina’s export restrictions on wheat have contributed to a 5-15% reduction in wheat planting for the coming season.

¹⁴ Output variability in Sub-Saharan Africa has been estimated to be 2-3 times more than in Asia, mainly due to the differences in area under irrigation.

¹⁵ See Fan and Rosegrant (June 2008) ‘Investing in Agriculture to Overcome the World Food Crisis and Reduce Poverty and Hunger’ *IFPRI Policy Brief 3*.

Research (CGIAR) currently receives around \$450 million a year. This amount should be doubled over the next five years for research and national research systems capacity.

- *Create an enabling environment to stimulate private sector led-investment in agri-business across the entire value chain.* The private sector has a critical role to play in mobilizing resources, finance and know-how for agricultural growth – helping develop sustainable lands and water; connecting farmers to international supply chains; contributing to financing infrastructure; building logistical and transport systems; helping developing country producers meet food safety standards; connecting retailers with farmers in developing countries; and supporting agricultural trade finance. Many developing countries need technical assistance in building a regulatory and business environment that will encourage private investment and public-private partnerships.
- *Develop innovative instruments for risk management and crop insurance for small farmers.* Concurrently, interventions are needed to reduce farmer exposure to commodity price and weather-related risks with a variety of low-cost, market-based risk management instruments e.g. warehouse receipts, futures and options and weather-based insurance products.

Commit to revising policies towards bio-fuels in the G8 countries in light of tensions between competing food security and energy security priorities:

- *Agree on action in the US and Europe to ease subsidies, mandates and tariffs on bio-fuels that are derived from maize and oilseeds; accelerate the development of second generation cellulosic products.* Most analysts agree that bio-fuels have had a substantial impact on land use and food prices (IFPRI, OECD, IMF, World Bank). Prices for those crops used as bio-fuels have risen more rapidly than other food prices in the past two years, with grains up 144%, oilseeds up 157% and other food prices only up 11%. Three-quarters of the increase in global maize production in the last three years went to ethanol in the US. Also in the past three years, five million hectares of cropland that could have been used for wheat has gone to rapeseed and sunflowers for bio-fuels in major wheat producers, including Canada, the EU and Russia. But not all bio-fuels have the same impact on food prices – for instance, increased production of bio-fuels from sugar cane in Brazil has not led to substantial increases in sugar prices. Policy changes alongside investments in new technology can reduce tensions between food and energy security. The estimated production cost of ethanol from sugar cane in Brazil in 2007 was \$0.90 per gallon in contrast to \$1.70 per gallon for maize-based ethanol in the US, and costs of around \$4 per gallon for biodiesel in both the EU and the US. Phasing out production subsidies and reducing tariffs in the EU and the US would allow bio-fuels to be produced from the most efficient feedstock by the lowest cost producers, removing pressure from food prices and allowing for the benefits of bio-fuels without the negative consequences.
- *Facilitate private investments in bio-fuel production in developing countries to help diversify energy sources and reduce volatility in both food and energy markets.* Many developing countries, especially in Africa, have a comparative advantage in bio-fuel production – both for first generation bio-fuels from sugar cane, and potentially for second generation bio-fuels from sugar cane residue. These countries may need assistance to design a regulatory framework for such investments.
- *Accelerate the development of second generation bio-fuels technology to reduce the competition for crop land between food and bio-fuel production.* Preliminary research into second generation technologies, where cellulose is converted into ethanol from stalks and leaves rather than food sources, is a promising beginning. Current maize subsidies reduce the incentives for farmers to invest in

cellulosic ethanol instead of maize-based ethanol. Global investment in agricultural research that supports second and even third generation technologies may alleviate the current tradeoffs with food production.

Take leadership at the highest political levels to improve coordination across major exporting and importing countries and break the price spiral for key staples:

- *Agree on the immediate elimination of taxation or restrictions on humanitarian food aid, certainly for WFP purchases.* Clear rules should be set so that even countries with restrictions on commercial exports allow food for humanitarian needs to be sourced from their country without added taxes or border charges.
- *Promote agreement on a timetable for relaxation of export restrictions by key producers, at the very least for shipments to the least developed countries and those in fragile situations.* Such steps by one or two major exporters could have an immediate impact on prices and open the door for others to follow suit. The announcement in April that Ukraine would relax its export restrictions, for example, contributed to an 18% decline in wheat prices. See Annex 6 for countries with export restrictions.
- *Release of Japanese stocks of imported rice onto world markets.* Japan currently has around 900,000 tons of US medium-grain rice and 600,000 tons of long grain rice imported from Thailand and Vietnam, which are surplus to domestic consumption requirements. This rice could not be re-exported from Japan due to agreements with the US, Thailand and Vietnam, although in mid-May, the United States agreed that the rice stockpiles could be released and re-exported to third countries. The sale of this rice on world markets, or preferably donations to the most vulnerable countries, could help further reduce rice prices.¹⁶
- *Initiate discussions with China to increase its rice exports, or donations, to 2-3 million tons.* China is currently holding very large stocks of rice, significantly in excess of food security guidelines of 18-20% of total consumption. It can play a key leadership role in global rice markets by releasing a small fraction of these stocks onto the world market, or via donations to affected countries. This could contribute to lowering pressures on high world rice prices without affecting domestic inflation or food security.

Build the foundations of a better-functioning international trading system that avoids the recurrence of such types of crises in the future.

- *Reach agreement on the Doha Round.* The current situation presents a window of opportunity to make progress on this agenda. In the short term, a Doha agreement could help reduce the use of export restrictions by enforcing the notification of new restrictions to the WTO and limiting the length of their use.¹⁷ More broadly, from the perspective of high-income countries, the protection of farmers is no longer needed as prices are high. Trade agreements lowering import tariffs would reduce the burden on consumers, for both developed and developing countries. The impact of the Doha Round on global agricultural trade and the

¹⁶ On June 3rd 2008, Japan announced that it will release 300,000 tons of rice stocks and is currently discussing the sale of 200,000 tons of rice with the Philippines.

¹⁷ At present, the WTO provides only minimal disciplines on export restrictions, mainly a notification requirement. Export prohibitions and restrictions are covered in the Doha round of multilateral trade negotiations. Members would be obliged to notify new export restrictions or prohibitions to the Committee in Agriculture within 90 days from the entry into force and the duration of any new export restrictions would be limited to 12 months, or up to 18 months if affected importing countries were to agree.

current food prices crisis would depend on the extent of trade liberalization in agricultural products by industrial and developing countries and the capacity of developing countries to respond to new market opportunities. As it stands, a Doha deal relying heavily on elimination of agriculture export subsidies and deep reductions in domestic support would reduce poverty, but by a relatively small amount compared to the poverty-reduction potential of a more ambitious agreement that would rely on tariff cuts and greater market access, including for processed food.

- *Agree on a mechanism to coordinate and inform the actions of key players and help make global food markets more stable and reliable in the future.* Domestic grain stock levels, management, and governance arrangements are a critical part of ensuring national food security. However, the current crisis underscores the need to address fundamental issues of information sharing and trust in global food markets, as well as of global stock management. Agreement on a 'Code of Conduct' for stock management could help countries avoid costly unilateral actions, such as export bans. Better and more transparent sharing of information on stock management plans among market players could help reduce market volatility, as could the use of long-term agreements for stock purchases. Further thought could also be given to the pros and cons of building a 'virtual' internationally coordinated strategic reserve system, at least for humanitarian purposes.

5. Rapid action and financial support is essential

The World Bank is already working in close partnership with the UN agencies through the Secretary General's High-Level Task Force on the Global Food Security Crisis to develop and implement a common, integrated response to the food crisis. This common strategy to confront the food crisis is built around four main pillars. The Bank is engaging in policy dialogue with over 40 countries to help craft appropriate country-specific responses to the crisis. To expedite financial support the Bank has launched the Global Food Crisis Response Program (GFRP), has initiated fast-track IDA and IBRD funding for affected countries. Grants were approved in May and June for Djibouti (\$5 million), Haiti (\$ 10 million), Liberia (\$10 million), Tajikistan (\$9 million) and Yemen (\$10 million). Activities are already underway in Haiti where the resources are helping to scale up safety net programs, support an accelerated supply response among smallholders and develop an insurance mechanism to hedge protracted food inflation. The GFRP is also complemented by increased Bank financial support through regular IDA/IBRD channels. In addition, overall financial flows to agriculture, agribusiness, safety net and nutritional programs are expected to increase by 50% between 2008 and 2009, rising from \$4 billion to around \$6 billion. The Bank is also creating a Multi Donor Trust Fund (MDTF) to facilitate the involvement of a broad range of development partners in supporting country efforts to address the crisis.

The Bank is offering innovative financial market insurance products, such as index-based weather derivatives, to help countries manage the risk of droughts and other severe weather. To address critical knowledge gaps, the Bank is collaborating with other agencies and research organizations to expand the empirical knowledge base required for designing appropriate policies (Annex 7).

Crafting a coordinated response to cushion the impact of higher energy prices on the poor has not yet progressed as far; although the recent Jeddah energy meetings that brought together officials from producing and consuming nations as well as the IFIs brought welcome attention to this concern. Much of the World Bank's engagement has focused on extending our existing country policy dialogue to focus on short and medium term structural measures to cope with high oil prices. This work is articulated around three types of activities: (a) technical assistance and policy advice to improve the energy sector regulatory framework, including pricing; (b) emergency financing support

and quick response energy efficiency interventions, and (c) medium-term structural responses, including support to the Energy Access program, energy supply diversification, and efficiency improvement measures. The Bank is also exploring whether the MDTF originally conceived to help with the food crisis could be set up as a broader Vulnerability Fund to protect the poorest against both soaring food and energy costs, while we work to boost medium and long-term production.

Given the large and increasingly unsustainable fiscal cost of generalized energy subsidies, the Bank is working with client countries to rationalize energy pricing while establishing or strengthening social safety nets for the most vulnerable, and supporting energy efficiency measures (e.g. CFL distribution). In certain cases, budgetary support to vulnerable countries is also being provided to alleviate the oil price shock. In the medium term, the Bank is supporting Energy Access programs mainly in IDA countries (mostly Africa and South Asia). For example, the Lighting Africa initiative will provide access to electric lighting to 250 million people by 2030 that are presently dependent on kerosene lighting, as well as support access expansion projects in 12 African countries.

The international community is moving forward in identifying key priorities to help countries manage their growing macro disequilibria while simultaneously protecting vulnerable groups and supporting investments to overcome the structural nature of both crises. Working across agencies and with teams on the ground, critical short term safety net and agricultural financing requirements have been assessed in 50 countries along with medium term agricultural and energy access investment needs in 81 countries. Summaries of the needs assessments in four countries are shown in Annex 8.

Short term financing requirements for safety nets and agriculture (mainly assistance for seeds and fertilizers) in the 50 countries that were assessed by the World Bank are estimated to amount to \$3.5 billion. Additional incremental short-term financing needs estimated by WFP and the IMF are approximately \$6.5 billion, bringing the total short-term needs to \$10 billion. Additional medium-term financing needs for agricultural and energy investments in 81 countries are projected to reach \$8 billion (including an incremental \$1 billion for CGIAR) (Table 2).

Table 2. Short and Medium Term Financing Needs

	Safety nets and budget support (short-term)	Rapid agricultural response (short-term)	Agricultural and Rural Investment Climate (medium-term)	Energy (access, diversification and efficiency) (medium-term)	Total
World Bank	1.0	2.5	3.5	3.5	10.5
WFP	6.0				6.0
CGIAR			1.0		1.0
IMF	0.5				0.5
Total	7.5	2.5	4.5	3.5	18.0

Attachments:

- Annex 1: Agricultural Supply
- Annex 2: Poverty Impacts
- Annex 3: Country Vulnerability Indicators
- Annex 4: Country Policy Options
- Annex 5: Country Policy Responses
- Annex 6: Countries with Export Restrictions
- Annex 7: The World Bank's Response
- Annex 8: Needs Assessments: Country Examples

ANNEX 1. AGRICULTURAL SUPPLY

World cereal production end-2008 is projected to reach 2.2 billion tons according to FAO, with much of the 2.6 percent increase due to expanded wheat planting.¹⁸ Higher production is expected in most of the world's major wheat exporting countries during the following year, including Canada, EU-27, Russia, Ukraine, Brazil and China. However, increased utilization is forecasted to bring end-stocks down during the 2007/08 crop year despite higher production (Figure 1). According to the FAO, the ratio of world cereal stocks to utilization will fall to 18.8 percent by end-year, down six percent from 2006/07. Table 1 summarizes some key statistics from FAO and USDA on production, utilization, and end-stocks of world cereal. USDA projections of end-stocks are considerably more conservative than those of FAO, however, both FAO and USDA predict a decline in end-stocks of grains relative to 2006/07, with FAO predicting that total grain end-stocks will stand at a 25-year record low by the end of 2008.

Figure 1. World Cereal Production and Utilization (FAO)



Africa: Total cereal production for Africa (including North Africa) will increase by eight percent in 2008 up from the previous year's estimate of 143.1 million tons (FAO). Assuming normal rains in the coming months, rice production is forecasted to grow by 2.2 percent in 2008, with large expansions anticipated in Ivory Coast, Ghana, Guinea, Mali and Nigeria. However, other crop estimates are less favorable and there are significant regional variations. Adverse weather and lack of access to fertilizer has resulted in significant declines in maize, rice, groundnut and sorghum production in Nigeria. Given tightly interlinked regional markets this has led to higher prices in Benin and Niger. Mauritania is dependent on millet and sorghum imports from Mali and Senegal, and has been adversely affected by a poor harvest in the latter. On the other hand, despite late planting rains followed by floods and subsequent excessive dryness, coarse grain crop production forecasts for Southern Africa

remain favorable (except for Zimbabwe). Mozambique may face a contraction in production due to above normal rainfall and cyclone-related flooding, but Madagascar will face a more limited impact from Cyclone Ivan as its government has initiated a free seed distribution program to encourage re-plantation. East Africa's crop outlook for 2008 is affected by both conflict and weather conditions. Population displacements in Kenya and higher input costs have negatively affected planting in Kenya. Cereal prospects in Ethiopia are highly uncertain due to delayed rains. Similarly, coarse grain production in Tanzania is estimated to be slightly lower than 2007 levels due to poor rains. Crop prospects in North Africa are more favorable. Morocco's wheat and barley area output could be up by as much as 7 percent in 2008. Egypt's wheat area is estimated to have increased by about 12 percent. Prospects are less favorable in Tunisia due to erratic rains.

Latin America and the Caribbean: Total cereal production will increase by 1.5 percent from the previous year to reach 181.4 million tons in 2008, mainly due to coarse grain harvests and marginally due to more rice production. However, according to FAO, wheat production in this region is expected to decline by 5.8 percent from the previous year, down to 24.2 million tons in 2008. Argentina, the world's second-largest maize exporter and third-largest soybean supplier, imposed export taxes on soybean in an attempt to discourage exports and encourage farmers to produce maize and meat for domestic consumption instead. Partly as a result of these export restrictions, FAO is projecting a decline in Argentine wheat production of nine percent in 2008 (USDA's projections for 2008/09 are more conservative, with a decline of only three percent). Adverse weather conditions associated with 'La Nina' have affected food and cash crops in Bolivia, Ecuador and Peru.

¹⁸ It should be noted that the most recent FAO projections (from April 2008) do not take into account severe weather conditions in the US and Australia, which may well have an impact on global corn, soybean, and wheat forecasts.

East Asia and Pacific: Myanmar's rice crop this year will be slashed by seven percent to ten million tons because of the impact of Cyclone Nargis. In contrast, Thailand, the world's largest rice exporter, saw farmers expanding the sowing of a third rice crop, and is expecting another 1.6 million tons of rice paddy this year. Thailand's total annual output is projected to reach 30.5 million tons of paddy rice. Aggregate wheat output in China in 2008, at 106 million tons, is expected to equal previous-year record levels, while paddy rice production in 2008, at 188 million tons, is expected to be three million tons higher than in 2007. Based on estimated end-stocks of 40 million tons of milled rice (USDA), China should be in a position to release some of its reserves onto global markets this year. Vietnam is expected to produce around 36 million tons of rice, slightly above its 2007 levels.

Eastern Europe and Central Asia: Both FAO and USDA forecast an increase in the region's wheat output in 2008, with better planting conditions encouraging increased crop area across Ukraine, Russia, and Kazakhstan. The EBRD suggests that the three countries are particularly well-positioned to expand grain exports. Ukraine's total cereal harvest is projected to reach 37.4 million tons in 2008 (FAO), with USDA and FAO forecasting 18.4-20 million tons of this production in wheat. Russia's cereal output in 2008 is projected to be around 82 million tons, including 50 million tons of wheat, and the balance coarse grains.

South Asia: A bumper rice harvest has started arriving on the market in Bangladesh, bringing down the retail price of coarse rice by nearly 15 percent to 30 Bangladesh Taka/kg. Total rice production in 2008 in Bangladesh is projected to be 3-4 percent higher than the previous crop year (USDA and FAO). India, the world's second-largest rice producer after China, expects a bumper crop, with a record 143 million tons of paddy rice production in 2008 (FAO). FAO forecasts wheat crops in the region to decrease from last year, with India's 2008 wheat production forecasted to be 74.8 million tons, down from 75.8 million tons last year (reflecting a decline of 500,000 hectares in planted area and unfavorable weather at planting time in some major producing provinces). However, this is still above the previous five-year average. Pakistan's wheat crop in 2008 is projected to be one million tons lower than in 2007 due to higher fertilizer prices, less irrigation water, and reduced sowing due to farmer's dissatisfaction with the Government's support price.

Table 1. World cereal situation (million tons)

	FAO 2007/08	FAO Change: 2007/08 over 2006/07 (%)	USDA 2007/08	USDA forecast for 2008/09 (June)
PRODUCTION ¹	2 109	4.7	2 114	2 162
Wheat	606	1.6	611	663
Coarse grains	1 069	8.3	1 076	1 068
Rice (milled)	434	1.0	428	431
SUPPLY ²	2 534	2.0	2 456	2 501
Wheat	765	-1.4	737	778
Coarse grains	1 231	5.0	1 215	1 214
Rice	538	0.7	503	509
UTILIZATION	2 126	2.9	2 117	2 156
Wheat	621	0.1	622	646
Coarse grains	1 069	5.1	1 069	1 083
Rice	436	1.8	426	428
Per caput cereal food use(kg/yr)	152	-0.1		
END OF SEASON STOCKS ³	405	-4.8	340	344
Wheat	144	-9.2	115	132
Coarse grains	104	-3.1	78	82
Rice	606	-0.9	611	663

¹ Data refer to calendar year of the first year shown/ ² Production plus opening stocks/ ³ May not equal the difference between supply and utilization because of differences in individual country marketing years.

ANNEX 2. POVERTY IMPACTS

The impact of rising food prices on poverty in an individual country depends on several factors including: (i) the extent world market prices are passed through to domestic prices; (ii) the initial poverty level and number of people clustered around the poverty line; (iii) the number of net buyers or net sellers of the commodities in question; (iv) the share of poor people's budgets devoted to food overall and key staples in particular; (v) the extent of own-consumption relative to market purchases; and (vi) the effect of food price increases on real wages of poor people. This annex briefly summarizes recent estimates of the poverty impacts of rising food prices in various countries. None of the estimates takes into account the full range of factors listed above, so they should be considered as indicative or in some cases, as upper or lower bound estimates.

		Initial \$1/day	Change	
			No wage	With wage
Bolivia		23.2	2.0	1.8
Cambodia		34.1	1.5	1.3
Madagascar		61.0	4.7	3.6
Nicaragua		45.1	7.8	7.7
Pakistan		17.0	4.1	3.4
Peru		12.5	-0.2	-0.3
Vietnam		17.7	-2.0	-2.3
Zambia		75.8	5.0	4.9
Average	Rural	40.8	2.5	2.2
	Urban	24.5	3.6	3.2
	Total	34.1	3.0	2.7

Ivanic and Martin (2008) show that the effects of rising commodity prices on poverty differ considerably between countries and commodities, but that poverty increases are considerably more frequent and larger than poverty reductions. Urban households are typically hit harder than rural households, though many in rural areas are also net consumers of food and therefore adversely affected by price rises. The average impact of a 10% increase for seven key food items is to raise the poverty headcount ratio by 0.4 percentage points. Table 1 uses these results to produce rough estimates of the poverty impact of actual food price increases between 2005 and 2007. The variations across countries are clear – with large poverty increases in Nicaragua, Zambia, Pakistan, and Madagascar and poverty reduction in Peru and Vietnam (where a significant number of poor households are net rice producers). Global estimates of the poverty impact of rising food prices depends significantly on assumptions of the extent global prices are passed through to domestic consumers (see Table 2). Assuming that exchange rates were constant, and a pass-through rate of 0.66, for example, translates into a 4.5 percentage point increase in the \$1/day poverty headcount ratio,

Headcount %				
Price pass-through rate	0.33	0.5	0.66	1
Rural	1.8%	2.9%	4.2%	6.9%
Urban	2.3%	3.6%	5.0%	8.3%
Total	1.9%	3.2%	4.5%	7.5%
Headcount (m)				
	45	73	105	174

or an additional 105 million people in poverty. Since the worldwide \$1/day poverty headcount ratio has declined by an average of 0.68 percentage points per year, this potentially translates into almost seven lost years of progress in poverty reduction.

West and Central Africa: Analysis in West and Central Africa suggests that the negative impact for consumers tends to be larger than the positive impact for net sellers of locally produced foods because a substantial share of food consumption is imported. Table 3 considers only the short-term poverty impact of higher food prices, as estimated by the direct impact of higher prices on consumers' budgets and producers' incomes. All simulations assume the same price increases (25% and 50%) for all countries and the selected food items (mostly rice, flour and bread, maize, vegetable oil, sugar, and milk) are typically imported. Simulations show that a 50 percent increase in prices for the selected food items would potentially lead to an average increase of 2.5 and 4.4 percentage points in the share of the population in poverty. The actual poverty impact of rising food prices overall is

likely to be smaller in countries where these selected items are a small share of the household budget (e.g. Burkina Faso and Togo).

Country	Consumption Share of Selected Items	Baseline Headcount Ratio	Upper bound	Upper bound	Lower Bound	Lower Bound
			Impact (Consumption) 25% increase	Impact (Consumption) 50% increase	Impact (Cons. & Production) 25% increase	Impact (Cons. & Production) 50% increase
Burkina Faso	6.8	46.4	1.1	2.0	-	-
Ghana	7.7	28.5	1.1	1.9	0.7	1.2
Liberia	22.8	63.8	3.3	6.0	2.8	5.6
Senegal	20.5	50.8	5.1	9.6	-	-
Sierra Leone	11.7	66.4	1.4	3.2	0.8	2.1
Togo	6.5	61.6	1.1	2.1	0.9	1.4
DRC	28.3	71.3	2.6	4.9	1.3	2.4
Guinea	13.0	49.1	1.6	3.0	0.9	1.6
Gabon	10.7	32.7	1.8	4.0	1.6	3.5
Mali	13.4	47.5	2.6	5.3	1.7	3.4
Niger	41.0	62.1	4.0	7.9	3.8	7.5
Nigeria	9.8	54.7	1.5	3.1	0.5	0.9

Source: Wodon Q et al (2008) 'Potential Impact on Poverty of Higher Food Prices: Summary Evidence from West and Central Africa' Africa Region (mimeo)

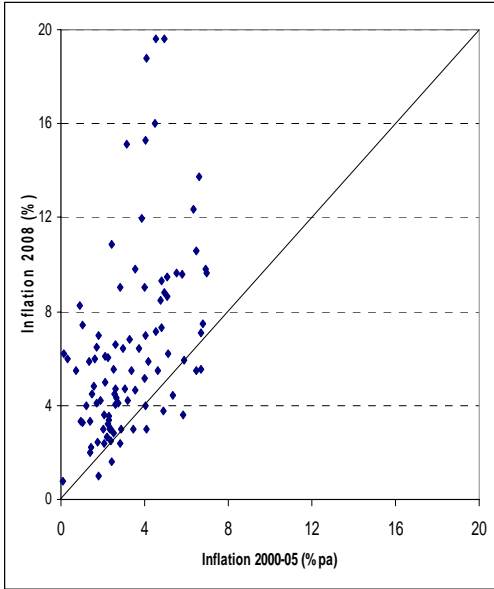
Latin America and Caribbean: A "Poor Person's Price Index" or PPPI for countries in Central America captures a rough estimate of the poverty impact of global food commodity prices in 2007. Under the assumptions made in constructing the index (inter alia, no substitution effects or supply response), the PPPI shows that food inflation in 2007 potentially leads to a range of increases in headcount poverty rates from 3.4 percentage points in Jamaica to no change in the Dominican Republic (see Table 4).

	Inflation (percent)		Estimated decline in purchasing power of the poor (2) - (1)	Headcount poverty rate (percent)	Number of poor (millions)	Location of poor (percent)	
	(1) Official CPI	(2) Poor Person's Price Index				Urban	Rural
Jamaica	16.8	20.2	3.4	14.8	0.4	61	39
Nicaragua	16.9	19.5	2.7	46.2	2.7	17	83
Brazil	4.5	6.7	2.3	30.7	58.9	53	47
Honduras	8.9	10.8	1.9	50.7	3.9	58	42
Panama	6.4	7.9	1.6	36.8	1.2	55	45
Costa Rica	10.8	12.0	1.2	23.9	1.0	73	27
Guatemala	8.7	9.6	0.9	51.0	6.6	54	46
Bolivia	11.7	12.5	0.8	59.6	5.5	28	72
El Salvador	4.9	5.4	0.5	37.2	2.6	51	49
Peru	3.9	4.3	0.3	51.6	15.0	37	63
Dominican R.	8.9	8.9	0.0	42.2	4.0	26	74

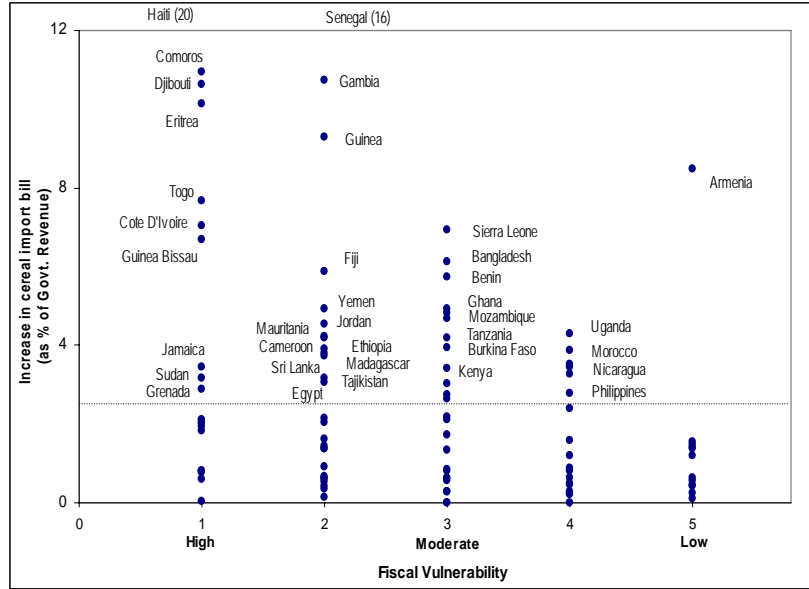
Source: LACR Position Paper on Rising Food Prices, Latin America and Caribbean Region, World Bank

ANNEX 3. COUNTRY VULNERABILITY INDICATORS

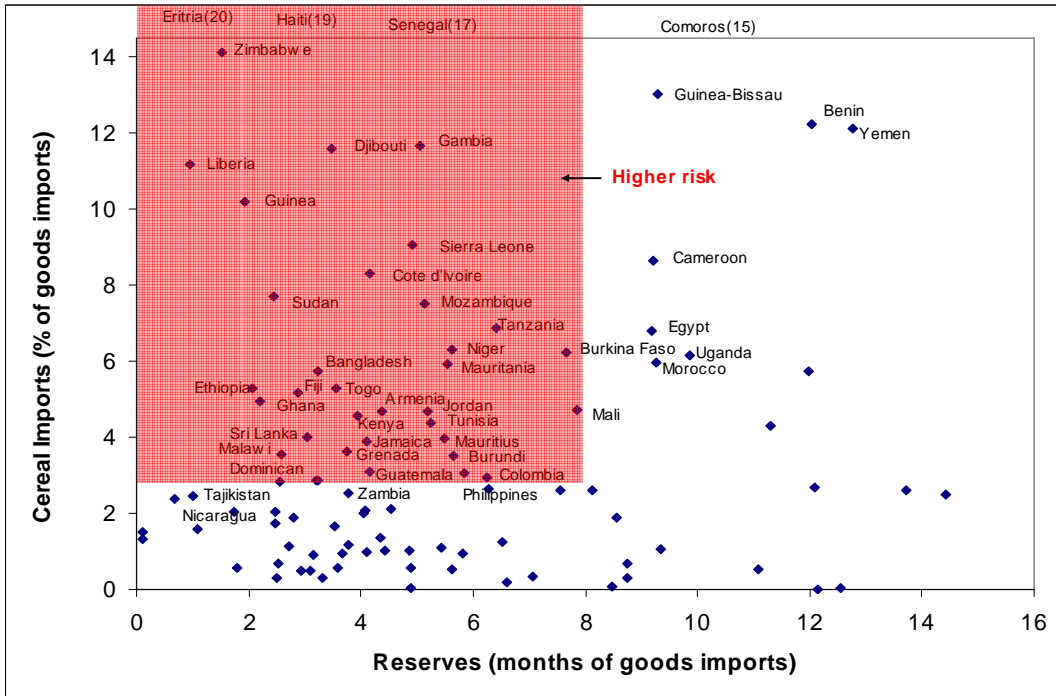
Inflation in 2008 relative to 2000-05¹⁹



Fiscal vulnerability²⁰ to food price shock



Reserve cover for cereal imports (2008)



¹⁹ For countries that had inflation rates of less than 7 % in 2000-05.

²⁰ The Fiscal Vulnerability Index is based on World Bank Country Policy and Institutional Assessment (CPIA) ratings.

ANNEX 4. COUNTRY POLICY OPTIONS

A: Ensuring household food security via targeted safety nets

Instrument	Context / Country examples	Issues
Cash based transfers (means based and conditional cash transfers)	Best suited to countries with sufficient institutional capacity to appropriately target and disburse cash to large numbers of people (middle income and selected low income)	<ul style="list-style-type: none"> • Typically cash transfers have lower overhead costs relative to food programs. • Can be linked to use of health and education services (conditional cash transfers). Where access to health and education services is limited, the condition may rule out the neediest families. Moreover, monitoring the compliance with conditions involves an extra administrative system. Where programs are well established, their benefit can be raised or their coverage expanded, but setting up new programs has a long lead time. Unconditional needs based cash transfers more broadly applicable during crises. • Transfer amounts need to be adjusted to keep pace with inflation.
	Examples: Mexico, Indonesia, Brazil, South Africa, China, Mauritius	
Near cash (e.g. food stamps, vouchers)	Most often used in countries which are transitioning from in-kind to cash transfers	<ul style="list-style-type: none"> • Lower overheads than food transfers, slightly higher than for cash transfers • Requires retail chain and effective distribution system
	Examples: Sri Lanka, Tunisia Jamaica has recently replaced it with a CCT program	
Public works programs, either food or cash for work	Recommended for low income countries where targeting cash transfers via means or proxy means testing is difficult	<ul style="list-style-type: none"> • Potential for effective self-targeting, though often scale of program is small enough that additional targeting criteria are needed • Local infrastructure can be created but quality control important • Effective implementation of the works is administratively demanding • Substantial non-labor costs (on order of 40-60% of total) • Administrative costs of handling food higher than comparable cash for work programs.
	Current Examples: Bangladesh, Mozambique, Cambodia, Ethiopia, Brazil, Egypt, Afghanistan, Nepal, India, Angola, Lesotho, Madagascar	
Feeding programs (e.g. school-based or maternal and child feeding)	Recommended for countries in parallel with above options as the primary focus of these programs is on protecting the most vulnerable – e.g. children and mothers	<ul style="list-style-type: none"> • Maternal feeding can encourage accessing other health/nutrition education services • School feeding can be combined with other interventions such as de-worming • Food needs to be low cost yet nutritious and feeding timed to minimize teaching disruptions – take home rations are an alternative to on-site feeding • While school feeding can effectively target children it misses infants whose feeding needs are highest • Nutritional supplementation programs may need to be scaled up, especially for infants.
	Current Examples: Burkina Faso, Kenya, Mexico, Honduras, USA, Eritrea, Mozambique, South Africa, China, Brazil, Bhutan, Maldives, Pakistan, Sri Lanka, India, Lesotho, Madagascar, Zimbabwe	

B: Policies that lower domestic food prices in the short-run

Instrument	Context / Country examples	Issues
Reduction in import tariffs, VAT and other taxes on food grains	<p>Recommended for all countries with significant taxes and tariffs on food grains</p> <p>Current Examples: Burundi, Zambia, China, Indonesia, Kazakhstan, Moldova, Bolivia, Tunisia, Afghanistan, Pakistan, Morocco, Turkey</p>	<ul style="list-style-type: none"> • Can significantly lower domestic prices in countries where share of tariffs in retail prices is high but scope limited in low tariff settings. • Easy to implement • Domestic food grain producers face more competition • Fiscal losses depend on composition of domestic revenues
Selective grain/bread subsidies targeted to poor consumers	<p>Second best option in countries where targeted safety net programs cannot be scaled up sufficiently during crises</p> <p>Current Examples: Bangladesh, Egypt, Morocco</p>	<ul style="list-style-type: none"> • May not distort domestic markets much if consumer subsidy is financed by the budget and not by limiting producer prices; is rationed; and is applied to products consumed mainly by the poor (e.g. coarse rice). • Institutional ability to operate “low price markets/shops” with adequate food rations is required • There is some risk of the rich hiring the poor to procure subsidized items
Use of strategic grain reserves (buffer stocks) to lower prices	<p>Second best option used in low/middle income countries which have the capacity to manage food stocks and need to respond quickly to food availability issues (they insure against delays and price volatility in international markets)</p> <p>Current Examples: India, Indonesia, Senegal</p>	<ul style="list-style-type: none"> • Can be used to provide targeted consumer subsidies • Excess stocks can undermine private markets and reduce capacity to respond during shocks • Professional management of stocks with good management information systems and clear criteria for market intervention required
Price controls on “strategic” staples or on trader margins	<p>Bad policy option in all countries</p> <p>Current Examples: Kazakhstan, Kyrgyz Republic, Cameroon, Eritrea, Congo, Yemen, Sri Lanka, Pakistan, Panama, Jamaica, Morocco Russia, Venezuela, Mauritius, Zimbabwe, Mongolia, Jamaica, Egypt, Tunisia</p>	<ul style="list-style-type: none"> • Lowers prices to all consumers regardless of need • Discourages domestic production, processing and trade • Creates black markets and rationing which often benefit more affluent. • Danger of aggravating rapid migration to cities over time
Grain export bans or taxes	<p>Bad policy option in all countries due to negative externalities on others and disincentives for future production</p> <p>Current Examples: Argentina, Croatia, India, Kazakhstan, Pakistan, Russia, Serbia, Ethiopia, Tanzania, Zambia, China, Bolivia, Egypt, Sri Lanka, Vietnam</p>	<ul style="list-style-type: none"> • Can help stabilize domestic grain prices in the short run but undermines long-term supply response • Creates disincentives for domestic producers particularly those dependent on export markets • Serious beggar thy neighbor effects due to price volatility and shortages particularly when they are applied by major exporters

C: Instruments for facilitating longer-term food security and stimulating a supply response

Instrument	Context / country examples	Issues
Forward contracts for international grain procurement	Appropriate for countries with data/capacity required to make decisions on forward contracts	<ul style="list-style-type: none"> • Government role is to facilitate implementation in the public interest by private sector entities rather than function as direct market actors
	Current Examples: India, China, South Africa	
Access to finance and market-based risk management instruments	Appropriate for all countries particularly those susceptible to large fluctuations in agricultural output	<ul style="list-style-type: none"> • Support required for innovative financing mechanisms for supply chain management and managing commodity price volatility • Financial products which transfer weather related risks to international insurance/derivative markets are complex and required capacity building and possibly Government cost-sharing
	Current Examples: Malawi is experimenting with index-based weather insurance	
Higher levels of public and private investment in agricultural support services (research, extension, market information) and reduction of post-harvest losses	Necessary investment in all regions	<ul style="list-style-type: none"> • Significant scope for increasing yields in all regions through greater use of existing technology, water and soil management • Reduction of post-harvest losses (estimated up to 25% of output) is key to greater intensification of production • Agricultural research as share of agricultural output lags behind in LDCs relative to MICs – essential for continued productivity increases • Revamped extension with product marketing services required – investments in data, capacity and community based extension important • Public investments need to ensure sufficient provision for operations and maintenance (e.g. large irrigation projects). • Agricultural strategies need to differentiate needs of commercial farmers and those of smallholders.
Investment in rural and trade-related infrastructure	Priority in countries with poor trade and transport infrastructure, in rural areas	<ul style="list-style-type: none"> • Improvements in rural accessibility can lead to lower prices of all products as well as stimulate surplus production. • Investments in improving customs, logistics management and marketing infrastructure will strengthen producer incentives.
Input subsidies / vouchers (e.g. for fertilizer)	Appropriate for low income countries where access by farmers to credit, farming inputs and risk management instruments is limited	<ul style="list-style-type: none"> • Fiscal costs can be high • Subsidies need to be transparent and well targeted • Exit strategy needs to be built-in and communicated publicly • Risks crowding out private input supply
	Current Examples: Malawi, Romania	

ANNEX 5. COUNTRY POLICY RESPONSES

Region: Africa

Country*	Economy-wide Policies				Existing Social Protection Programs			
	Reduce taxes on foodgrains ²	Increase supply using foodgrain stocks	Export restrictions	Price Controls/ Consumer Subsidies	Cash transfer	Food for work	Food ration/stamp	School feeding
Angola **	√					√		√
Benin								√
Botswana								√
Burkina Faso	√	√						
Burundi* **	√				√	√		
Cameroon	√			√				
Cape Verde								
Central Afr. Rep.*								
Chad*								
Comoros								
Congo, Dem. Rep.*	√							
Congo Rep* **				√				
Cote D'Ivoire*								
Equatorial Guinea								
Eritrea* **				√		√		√
Ethiopia* **	√	√	√	√	√	√	√	
Gabon	√							
Gambia, The								
Ghana*					√		√	√
Guinea*								√
Guinea-Bissau*								√
Kenya* **					√	√	√	√
Lesotho*	√				√	√		√
Liberia*			√		√	√		√
Madagascar **	√		√		√	√	√	√
Malawi			√			√		√
Mali	√	√		√		√		√
Mauritania*								
Mauritius				√	√			
Mozambique **					√	√	√	√
Namibia					√			
Niger **			√	√	√	√	√	√
Nigeria	√	√	√		√	√		√
Rwanda					√	√		√
Senegal						√		√
Seychelles								
Sierra Leone*			√			√		√
Somalia*								
South Africa	√				√	√		√
ST & Principe **	√	√						
Sudan*	√	√	√					
Swaziland*		√			√	√		√
Tanzania	√	√	√		√	√	√	
Togo						√		
Uganda*								
Zambia **	√	√			√	√		√
Zimbabwe* **	√		√	√	√	√		√

* Countries also listed in FAO List of Countries in Crisis Requiring External Assistance

** Countries listed in WFP as Highly Vulnerable to Increased Food Commodity and Fuel Prices

Color codes can be interpreted as follows:

	Consistent with longer run policies to improve food security
	Some concerns relating to longer run food security
	Likely to create problems for longer run food security depending on duration and targeting
	Highly likely to create problems for longer run food security and/or create serious problems for neighboring countries

Region: East Asia & Pacific

Country	Economy-wide Policies				Existing Social Protection Programs			
	Reduce taxes on foodgrains ²	Increase supply using foodgrain stocks	Export restrictions	Price Controls/ Consumer Subsidies	Cash transfer	Food for work	Food ration/stamp	School feeding
Cambodia	√	√				√		√
China	√	√	√	√	√			√
Fiji	√			√				
Indonesia*	√	√	√	√	√		√	
Lao PDR								
Malaysia		√		√				
Mongolia	√	√		√				
Papua New Guinea								
Philippines		√		√				√
Solomon Islands	√			√				
Thailand		√		√				
Timor Leste		√		√		√		√
Vietnam			√					

Region: Eastern Europe and Central Asia

Country	Economy-wide Policies				Existing Social Protection Programs			
	Reduce taxes on foodgrains ²	Increase supply using foodgrain stocks	Export restrictions	Price Controls/ Consumer Subsidies	Cash transfer	Food for work	Food ration/stamp	School feeding
Albania					√			
Armenia								
Azerbaijan	√			√	√			
Belarus			√	√	√			√
Bosnia Herz.		√		√				
Bulgaria								
Croatia			√					
Czech Republic								
Estonia								
Georgia								
Hungary								
Kazakhstan	√		√					
Kosovo				√	√			
Kyrgyz	√	√		√	√			√
Latvia								
Lithuania								
Macedonia	√	√		√	√			
Moldova*	√			√				
Montenegro	√	√		√				
Poland								
Romania								
Russia			√	√				
Serbia			√					
Slovakia								
Slovenia								
Tajikistan*	√					√		√
Turkey								
Turkmenistan				√				
Ukraine	√		√	√	√			
Uzbekistan			√	√				

Region: Middle East and North Africa

Country	Economy-wide Policies				Existing Social Protection Programs			
	Reduce taxes on foodgrains ²	Increase supply using foodgrain stocks	Export restrictions	Price Controls/ Consumer Subsidies	Cash transfer	Food for work	Food ration/stamp	School feeding
Egypt			√	√	√		√	
Morocco	√	√		√				√
Tunisia	√	√		√	√			
Yemen		√	√	√	√			
Lebanon	√			√				√
Syria	√	√	√	√	√		√	√
Jordan	√			√	√			√
W. Bank and Gaza	√			√	√		√	√
Iraq*	√	√	√	√	√		√	

Region: South Asia

Country	Economy-wide Policies				Existing Social Protection Programs			
	Reduce taxes on foodgrains ²	Increase supply using foodgrain stocks	Export restrictions	Price Controls/ Consumer Subsidies	Cash transfer	Food for work	Food ration/stamp	School feeding
Afghanistan*	√					√		
Bangladesh*	√	√	√	√	√	√	√	√
Bhutan	√	√		√	√			√
India	√	√	√			√	√	√
Maldives	√	√		√	√			√
Nepal*			√			√		√
Pakistan*		√	√	√	√			√
Sri Lanka*	√		√	√	√		√	√

Region: Latin America and Caribbean

Country	Economy-wide Policies				Existing Social Protection Programs			
	Reduce taxes on foodgrains ²	Increase supply using foodgrain stocks	Export restrictions	Price Controls/ Consumer Subsidies	Cash transfer	Food for work	Food ration/stamp	School feeding
Argentina			√	√				
Bolivia*	√		√					
Brazil					√	√	√	√
El Salvador	√				√			√
Honduras	√							√
Jamaica				√	√			
Mexico				√				
Panama	√			√				
Peru	√							

ANNEX 6. COUNTRIES WITH EXPORT RESTRICTIONS ON AGRICULTURE EXPORTS²¹
(countries highlighted in blue are large exporting countries)

Country	Region	Details
Argentina	LAC	Export restrictions on several food staples
Bolivia	LAC	Export restrictions on rice, maize, wheat and wheat flour, and other food items
Ecuador	LAC	Export restrictions on rice
Bangladesh	SAR	Export ban on edible oil
India	SAR	Export ban on rice
Nepal	SAR	Export ban on paddy rice, wheat, maize and flour
Pakistan	SAR	Export ban on wheat
Sri Lanka	SAR	Export ban on rice and coconuts
Belarus	ECA	Export restrictions on several food staples
Croatia	ECA	Export tax on wheat and maize
Kazakhstan	ECA	Export ban on wheat and export restrictions on sunflower seeds and vegetable oil
Russia	ECA	Export tax on wheat and barley
Serbia	ECA	Export ban on wheat and maize
Ukraine	ECA	Export ban on sunflower oil and oilseeds
Uzbekistan	ECA	Export ban on rice, grains, and flour
China	EAP	Export quota and export tax on grains
Indonesia	EAP	Export ban on rice and export tax on palm oil
Vietnam	EAP	Export price floor on rice
Egypt	MNA	Export ban on rice
Syria	MNA	Export restrictions on rice, wheat, and flour and export ban on several other food items
Yemen	MNA	Export ban on wheat
Ethiopia	AFR	Export ban on grains and flour
Liberia	AFR	Export ban on rice
Madagascar	AFR	Export ban on rice
Malawi	AFR	Export ban on maize
Niger	AFR	Export ban on millet
Nigeria	AFR	Export ban on grains, rice, and other food items
Tanzania	AFR	Export ban on all food exports
Zimbabwe	AFR	Export ban on maize and wheat

Source: Data based on newswires and responses from World Bank country teams

²¹ This list is only indicative of the main countries that have formally introduced restrictions on food exports. It does not include countries that have introduced unofficial restrictions through administrative measures (e.g., export licensing management).

ANNEX 7. THE WORLD BANK'S FOOD CRISIS RESPONSE

The Bank is well-positioned to help countries identify the appropriate mix of short and medium-term policies needed to protect vulnerable groups while providing leadership on the global policy agenda addressing the structural increases in food prices. The Bank's call for a New Deal for Global Food Policy has been widely endorsed by its development partners. The Bank is now working in close collaboration with the UN agencies on a common strategy to confront the food crisis. The Bank's response is articulated around four main pillars:

(i) Policy advice. The Bank is engaged in policy dialogue with more than 40 countries to help them address the food crisis. The instruments used include: rapid country diagnostics, high-level dialogue and public communications, as well as in-depth analytical work. Bank staff is also assessing the food security and trade implications of the crisis at the regional level. Examples of recent Bank activities to support country policy interventions related to rising food prices include:

- In Kazakhstan, the World Bank held a workshop on food prices with the Prime Minister and the cabinet to assess better options for managing inflationary pressures and the agricultural response. In Ukraine, the Bank has contributed to policy reforms and the reversal of policy decisions that would have restricted global grain supply. In Afghanistan, a quick note has been delivered on short-run actions to support vulnerable groups, and long-run options to assure adequate supply. In Indonesia and the Philippines, the Bank is advising on options to expand cash transfers to the needy. In Mozambique, the Bank is working with an inter-ministerial team to identify best practices in subsidies and other interventions to cope with higher food prices.
- The Bank is equally active on a regional level. In Nicaragua, earlier in May, a team briefed a summit of fourteen Latin American and Caribbean nations' leaders on food price increases and regional impacts. In East Asia, the Bank is providing inputs to the regional dialogue, supporting regional initiatives in agricultural research and facilitating trade coordination.

(ii) Expedited financial support. In May, the World Bank Board of Directors approved a Global Food Crisis Response Program (GFRP) – a rapid financing facility that is providing technical advice and access up to \$1.2 billion of financial support (including \$200 million of grant financing from the World Bank's own income) to countries affected by the food crisis. Building on the comparative advantage of the World Bank as a financial and policy-oriented institution, the overall aim of the GFRP is to minimize the threat posed by high food prices and sharply rising agricultural production and marketing costs to the livelihoods of poor urban and rural residents in developing countries. Interventions complement the short-term emergency responses of WFP and other donors. The program is an umbrella facility offering access under fast-track procedures to IDA/IBRD grants, credits and loans for both investment and program instruments. In addition to country funding, the GFRP offers financial support for regional initiatives that are eligible for IDA financing. All Bank-member countries adversely affected by the food crises are eligible to participate in GFRP. However, access to the US\$200 million of grant funding, capped at \$10 million for each country, is targeted to the most fragile, poor and heavily-impacted countries and territories with little access to immediate funding.

- *Grants were approved* in May and June for Djibouti (\$5 million), Haiti (\$10 million), Liberia (\$10 million), Tajikistan (\$9 million) and Yemen (\$10 million). In July, the World Bank expects to approve grant support to Togo, Sierra Leone, Niger, Guinea Bissau, Central African Republic, and Afghanistan. Furthermore, a pipeline of further proposals based on need has been identified for additional grant support in July and August. Activities are already underway in Haiti where the grant is helping to scale up key safety net programs, support an accelerated supply response among the poorer farmers and develop an insurance mechanism to hedge against protracted food inflation. In

Djibouti, the grant is helping to alleviate the fiscal costs from the removal of retail taxes on five basic food products and is supporting expanded safety net programs for school feeding, livestock feeding and mother-child support. Proposals for fast-track IDA funding under GFRP are moving forward for Kyrgyz Republic, Nepal, Afghanistan, Sri Lanka and Burkina Faso, and are being developed under fast-track IBRD funding for The Philippines. These projects will support safety nets for the most vulnerable, micronutrients to fight malnutrition, rapid provision of seeds and fertilizer to small farmers, and will compensate for sharp reductions in fiscal revenues in some countries.

- ***Creation of a Multi Donor Trust Fund.*** In order to facilitate the involvement of a broad range of development partners in supporting country efforts to address the crisis, a Multi Donor Trust Fund (MDTF) is being created. The MDTF could be used to support any of the components of the GFRP including improving access for small farms to seeds and fertilizers for the upcoming planting season. The MDTF will also facilitate policy and operational coordination among development partners and help ensure that support to countries is both comprehensive and country specific.
- ***Acceleration of relevant projects in pipeline.*** Beyond fast-tracking under expedited procedures of projects that fall directly under GFRP guidelines, there are numerous cases where regular projects are being accelerated under normal procedures to support longer-term country responses. For example, irrigation and agricultural research projects are being advanced in the Philippines and Indonesia.

(iii) Financial market insurance products. As of June 2008, IBRD and IDA will offer index-based weather derivatives to help clients transfer the financial risk of severe weather events to financial markets. Following a severe weather event, clients would receive a payout from the Bank with the value based on an index, estimating the financial impact. The World Bank's participation would reduce the initial investment for market players to expand into developing countries and help build capacity in beneficiary countries for future hedges with the markets. For example, under a proposal that was approved by the Bank's Board in June, Malawi will be the first of several countries to use the World Bank as an intermediary to access weather derivatives. Should Malawi suffer a drought, it would be protected against a rise in the price of imported maize. In addition, the IFC, the World Bank Group member that promotes private sector development, is planning to support crop and livestock insurance for smallholders in developing countries.

(iv) Research to address critical knowledge gaps. Designing appropriate policies to respond to the food crisis requires a solid foundation of empirical knowledge at the global and country level. In some areas this knowledge exists, and can be drawn upon. In others, there are large knowledge gaps that need to be urgently addressed. In June, the G8 Finance Ministers requested that the World Bank examine the impact of commodity price increases on development prospects. In collaboration with other agencies and institutions, the Bank is undertaking a comprehensive analytical program in six key areas:

- Global food markets and global food price developments
- Poverty, distributional and nutritional impacts of food price increases
- Fiscal and macroeconomic implications and responses
- Trade responses and impacts at country and global level
- Facilitating an agricultural supply response
- Using safety nets to dampen the social impact of the crisis

ANNEX 8. NEEDS ASSESSMENTS: COUNTRY EXAMPLES

Moldova: Exacerbated by a drought in 2007, food price inflation is estimated at 24 percent for May 2008 and food imports increased by 60 percent year-over-year since January-April 2007. Food expenditure, moreover, constitutes as much as 80 percent of total household income for the poorest households. The existing safety net system faces targeting inefficiencies, although a better targeted system may be fully in place soon. In response to the drought, the Government extended a fixed, one-time subsidy of about US\$15 million to all farmers to support agriculture activity. Authorities are projecting modest short-term budgetary financing needs, estimating that an additional US\$8.3 million will be required to supplement food-related subsidies. Projected medium-term agricultural investment needs, however, are substantial, as the National Development Strategy for 2008-11 estimates requirements of about US\$240 million in improving irrigation systems, marketing infrastructure, extension service, education, and food safety systems.

- 3 -

Haiti: High food and fuel prices and a depreciating currency have resulted in sharply rising inflation reaching 16.5 percent in April 2008. Rising costs fueled social and political discontent that led to riots and the Prime Minister and Cabinet were voted out of office in April 2008. The Government then announced a six-month rice subsidy costing US\$30 million, with a current shortfall of US\$10 million. The subsidy is well-targeted to the poor, with roughly 70 percent of the subsidy's benefits going to those living on less than \$2-a-day (76 percent of the population). Nevertheless, Haiti's situation remains volatile. Estimates of the financing gap for short-term needs in expanding safety nets are at US\$18 million for 2008. A rapid assessment of investment needs for boosting agriculture productivity, moreover, highlights a gap of US\$265 million over five years, while input subsidies are proposed for the next two years at a cost of \$30/farmer per year. The total financing gap for 2008 is estimated at US\$60 million.

- 3 -

Kyrgyzstan: At 31.5 percent, food inflation was the highest in the ECA region in 2007. Even before the advent of food inflation, 43.1 percent of households were living below the poverty line and 11.1 percent lived in extreme poverty in 2005, with particularly weak child health and nutrition outcomes. Existing safety nets include nutritional supplements and targeted cash transfer programs for the poor and nutritionally vulnerable, specifically nursing and pregnant women and children under 5. They require US\$6 million in funding per year, with continuing food price inflation implying an additional topping up of at least another US\$6 million annually. Additional fuel imports for winter will cost US\$50-100 million. Moreover, agricultural sector additional purchases, financed through credit lines, may well require US\$25-50 million, as well as another US\$100 million to modernize agricultural equipment. With an additional US\$210 million in balance of payments effects, the Kyrgyz Republic's total projected requirements in coping with the food and fuel crisis amount to US\$400-475 million.

- 3 -

Liberia: Liberia imports 70 percent of its food needs and increases in oil and food prices accelerated overall inflation during the first quarter of 2008, with food costing 25 percent more in January 2008 compared to the previous year. The Government is focusing on a threefold strategy: (i) mitigating prices by removing tariffs on rice imports and negotiating supply contracts with friendly governments; (ii) scaling up of direct assistance to severely vulnerable households and targeted feeding programs; (iii) promoting food crop production through distribution of essential planting materials and improved post-harvest systems to reduce losses. Estimates indicate that components of the program will cost approximately \$10 million each for the rest of 2008. As one of the first batch of countries receiving emergency assistance from the World Bank's GFRP facility, Liberia has received a total grant of US\$10 million to finance its Emergency Food Crisis Response Program. This grant will provide US\$3 million in an Agricultural Productivity Intervention to raise production primarily through increasing yields and reduced post-harvest losses, US\$3 million in a Cash for Work Employment Program, and US\$4.0 million in a Food Support for Vulnerable Women and Children program covering 69,600 beneficiaries and implemented through WFP.