

Addressing Food Price Volatility: Actions and Tools

The Role of the CFS and Way Forward

David Nabarro: 27th May 2011

The Challenge

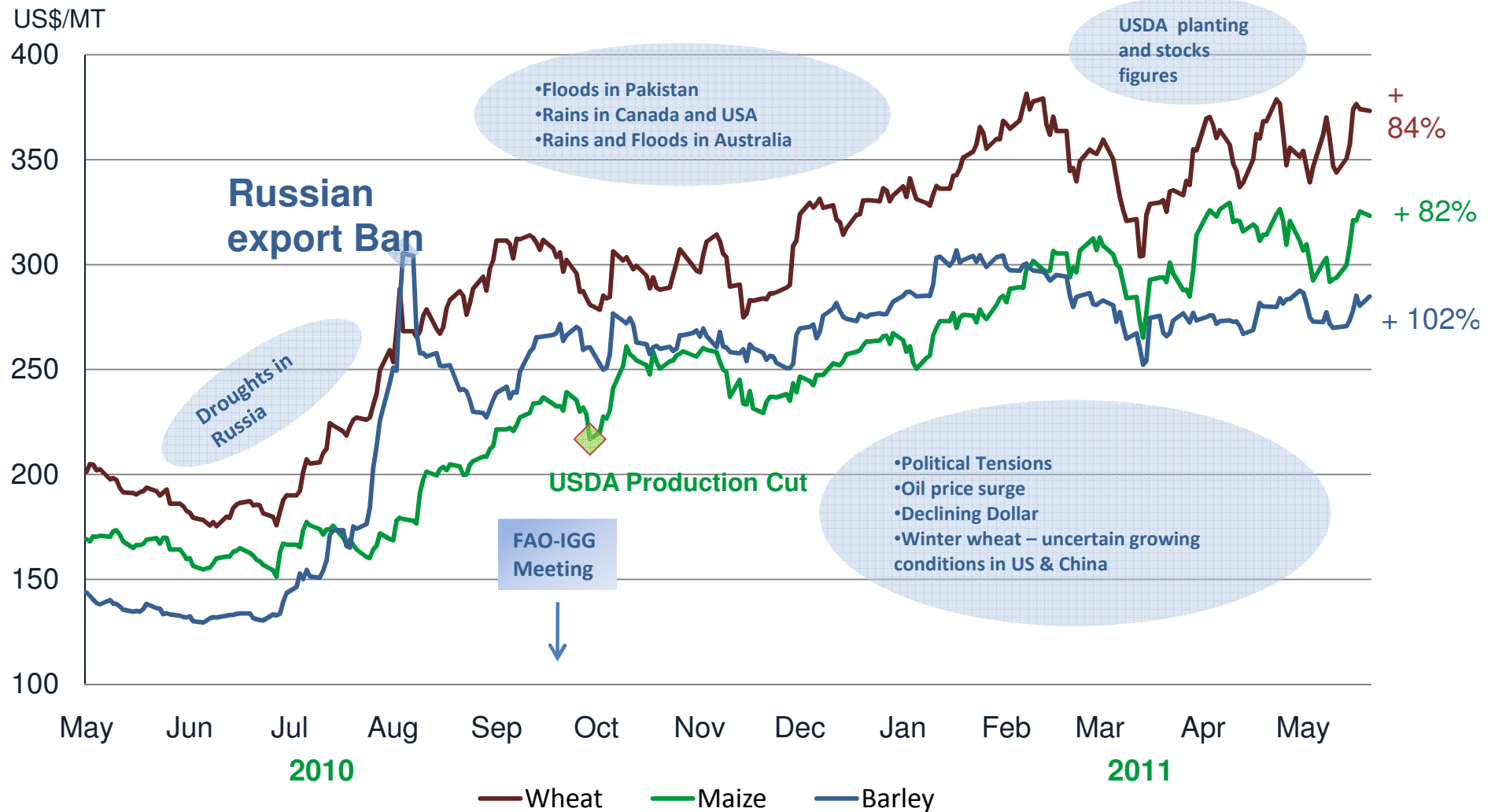
FAO Food Price Index

2002-2004=100



* The real price index is the nominal price index deflated by the World Bank Manufactures Unit Value Index (MUV)

A turbulent season for grain prices



High & volatile prices into 2011/12

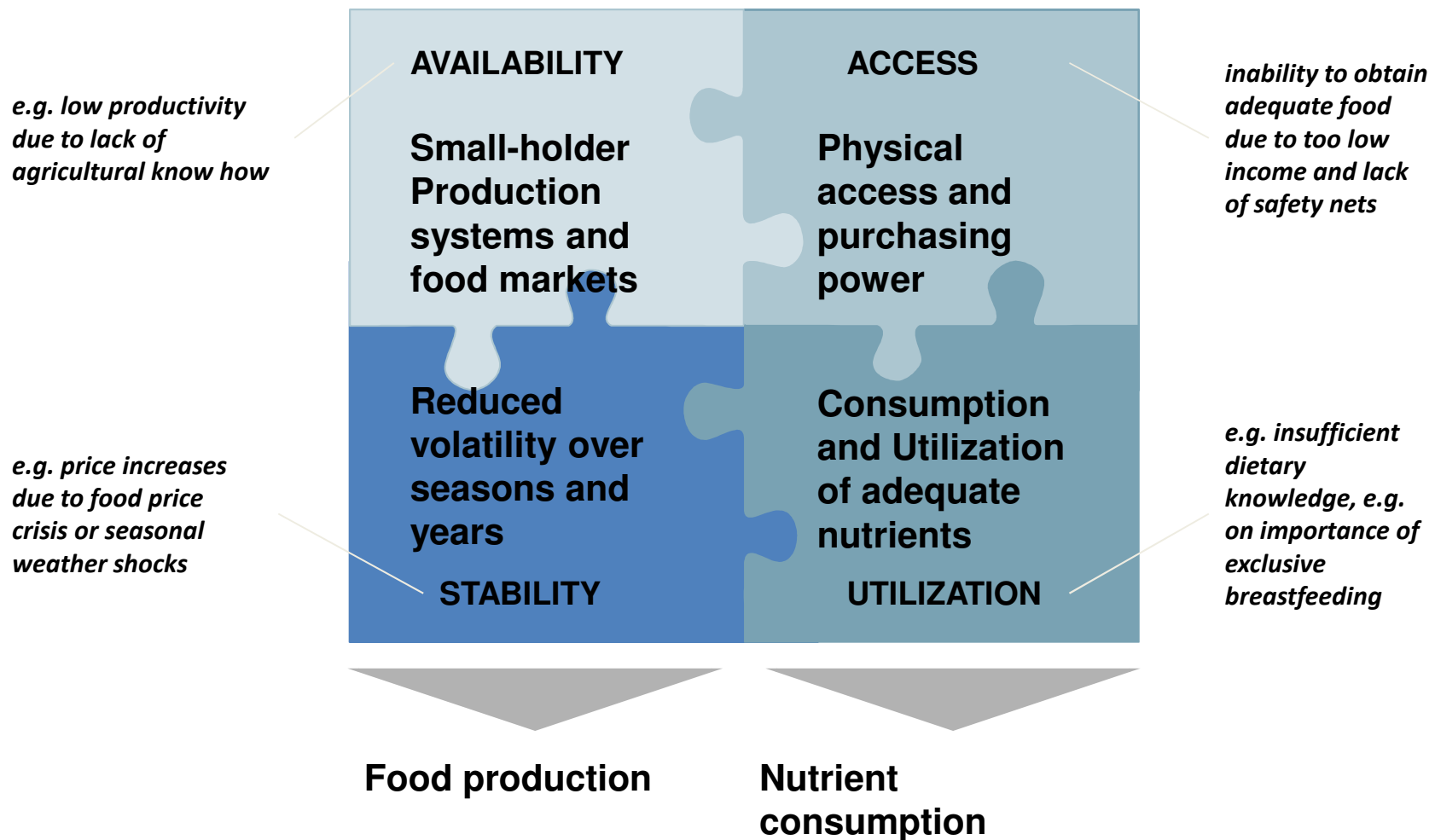
Short-term Uncertainties

- The final outcome of 2011 harvests
- The lifting or continuation of export restrictions
- Political Instability in North Africa & ME region
- Price developments in other commodity markets, oilseeds in particular
- Outside factors: Oil prices, GDP, \$, Japan, etc...

Grain prices will continue to rise – and be volatile

- Lower stocks than in the past
- More production from less stable regions (in terms of yields)
- Few exporters making up the bulk of export supplies
- Export restrictions permissible
- Growing links with outside markets: Energy and

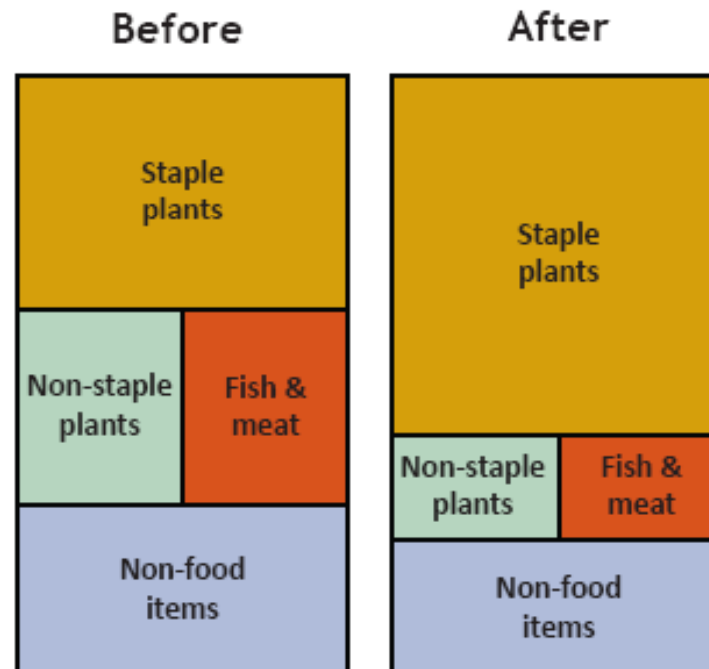
ELEMENTS OF FOOD AND NUTRITION SECURITY

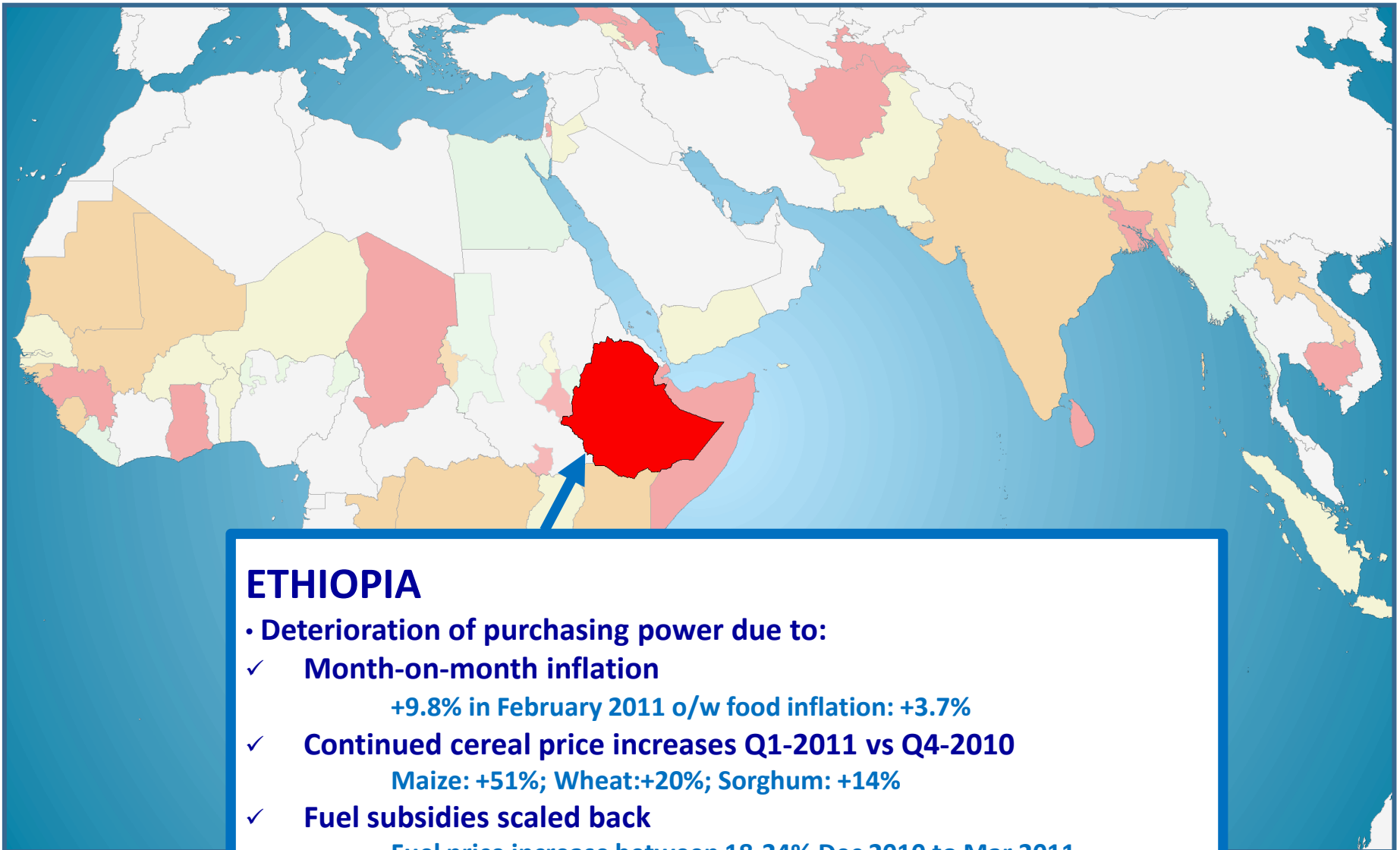


High and volatile prices at Household Level

Example from Rural Bangladesh

Share of Total Expenditures Before and After a 50% Increase in Food Prices

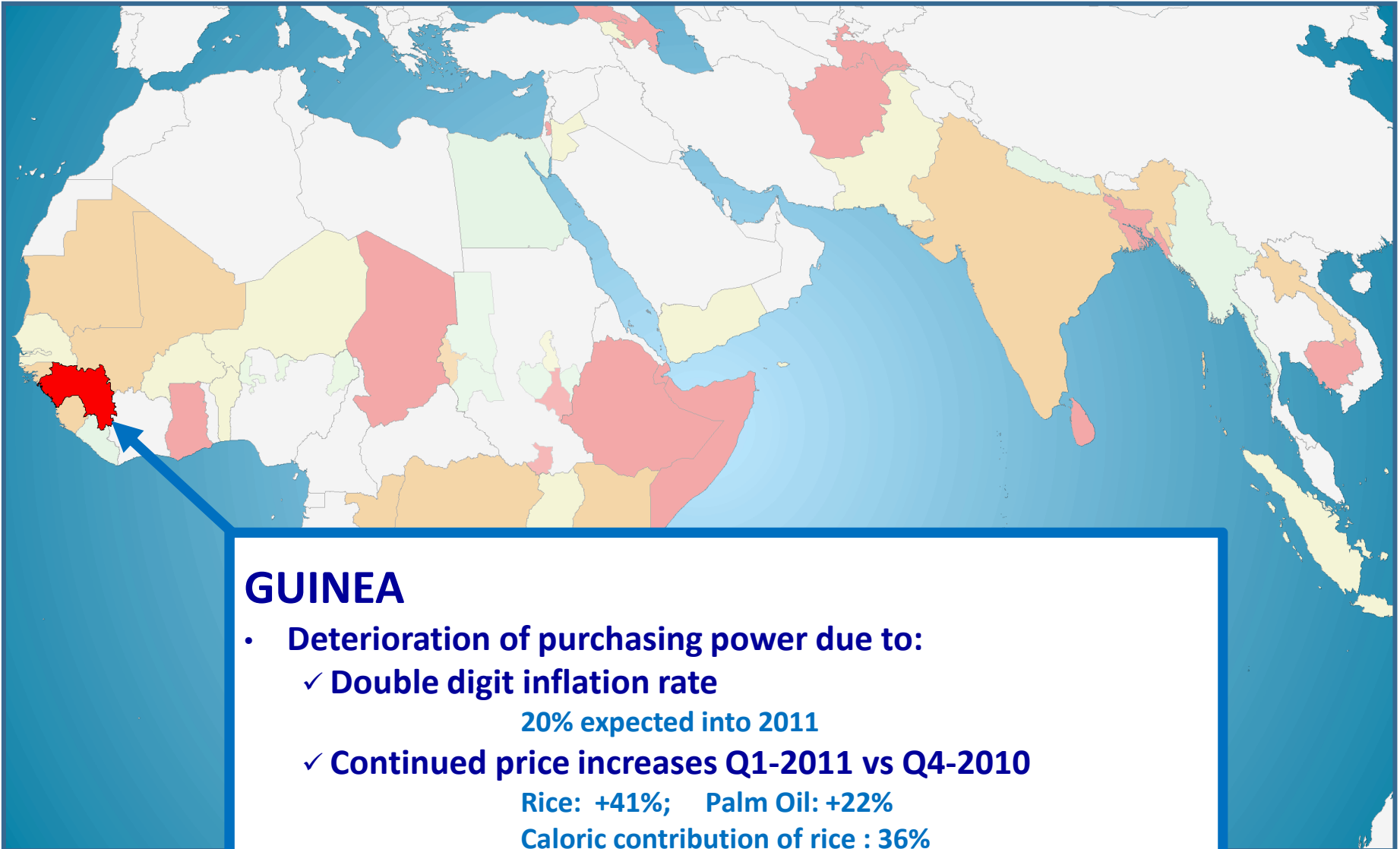




ETHIOPIA

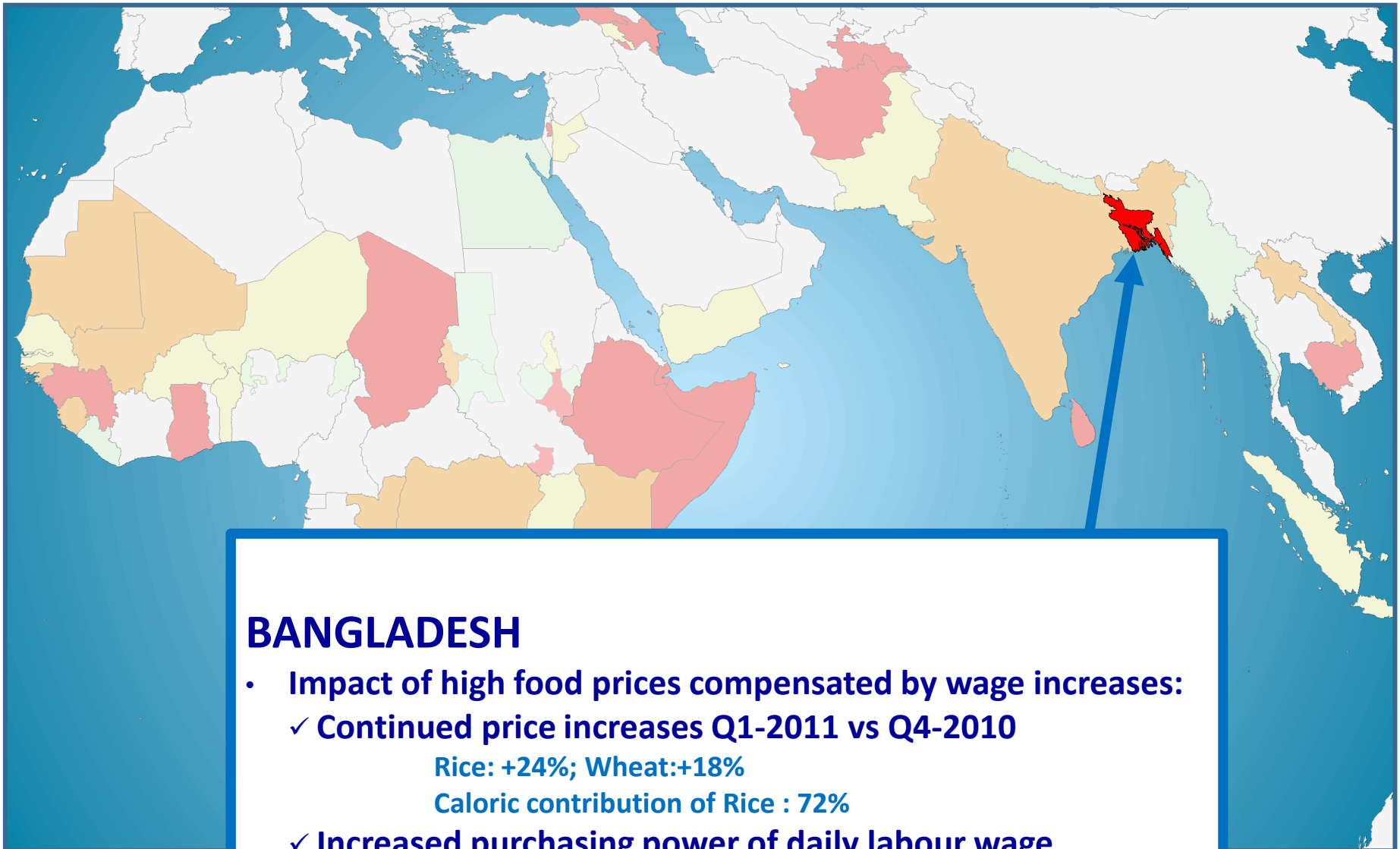
• Deterioration of purchasing power due to:

- ✓ **Month-on-month inflation**
+9.8% in February 2011 o/w food inflation: +3.7%
- ✓ **Continued cereal price increases Q1-2011 vs Q4-2010**
Maize: +51%; Wheat: +20%; Sorghum: +14%
- ✓ **Fuel subsidies scaled back**
Fuel price increase between 18-24% Dec 2010 to Mar 2011
- ✓ **Currency devaluation against USD**
- ✓ **Poor agricultural season.**



GUINEA

- **Deterioration of purchasing power due to:**
 - ✓ **Double digit inflation rate**
20% expected into 2011
 - ✓ **Continued price increases Q1-2011 vs Q4-2010**
Rice: +41%; Palm Oil: +22%
Caloric contribution of rice : 36%
 - ✓ **Chronic fuel shortages**
 - ✓ **Chronic currency devaluation against Euro and USD**



BANGLADESH

- **Impact of high food prices compensated by wage increases:**
 - ✓ **Continued price increases Q1-2011 vs Q4-2010**
 - Rice: +24%; Wheat:+18%
 - Caloric contribution of Rice : 72%
 - ✓ **Increased purchasing power of daily labour wage**
 - +26% in Q1-2011 vs Q1-2010

Lessons from recent experience

What worked well?

- Targeted measures to assist the most vulnerable
- Appeals and responses (although less than ideal)

And less well?

- Inadequate information and dissemination
- Insufficient *ex-ante* readiness (institutions, countries, individuals)
- *Ad hoc* policy reactions (trade policy measures, panic-buying)
- Blanket interventions including subsidies

Areas for Policy Dialogue

- Rising food prices: implications for consumers and producers
- Perils of price volatility
- Access to information and market transparency
- Facilitating Trade: local, sub-regional, global
- Increasing investment in small scale production
- Futures trading and speculation
- Seeking ways to reduce subsidies
- Changing demand – Food for Biofuels and Animal Feed
- Managing risks – for producers
- Mitigating risks of food and nutrition insecurity
- National and International Safety Nets
- Emergency Humanitarian Food Reserves
- *Many of these issues addressed in HLPE and G20 Reports*

Avoiding Ad Hoc Policies

National and Regional Policy Dialogue

– Learning and Applying Lessons

How can the full range of government can be engaged in this dialogue?

Value of involving a regional bodies as well as relevant International Organizations in catalyzing dialogue and learning.

Who should be engaged in the dialogue besides Government?

Banks, donors, civil society and businesses?

How best to Share Tools and Encourage their Use in Practice?

Avoiding Ad Hoc Policies

Analyzing policies related to rising prices and price volatility

- Price Information
- Market Information (Global)
- Decision Analysis
- Policy Dialogue Processes
- Impact of Policies



Tools for
Effective
Responses

Investing in Increased Food Availability, Nutrient Access and Stability of Supply

- Small-Holders
- Small Scale Entrepreneurs providing Inputs
- Small Scale Partners in Value Chain
- Farmer and Processor Organizations



Tools

-
- Risks – Price Volatility, Climate Events, Lack of Market Access
 - Response – Insurance, Smart Subsidy etc
 - Link Insurance to Credit Access, Input Supplies, Value Chain – Value Proposition of Index Insurance
 - Key role of intermediaries: People-Private-Public Partnerships that can Go To Scale
 - Important Role of Public Sector (GOVTS and DONORS)

Instruments for Improving Food and Nutrition Security



Tools

- **Market Information (Local)**
- **Simulation of Price Shocks**
- **In-Depth Vulnerability Analysis**
- **Support for Effective Responses**
 - **Availability (promoting local and rational food systems, food diversification)**
 - **Access (food and/or cash accessible to the most vulnerable),**
 - **Price Asymmetry,**
 - **Price Volatility**
- **Ensuring Access through Safety Nets :**
 - **Specialized Food-Oriented Safety Nets**
 - **Nutrient-Dense Foods and Nutrient Supplementation**
 - **School Feeding**
 - **Direct Transfer and Public Works**
- **More Efficient and Effective Safety Nets in Social Protection Systems**
 - **Being Prepared with Advance Purchase**
 - **Being Able to Respond Quickly to Need**
 - **Being Able to Surge in Case of Rapid Increase in Need**
 - **Targeting in Response to Need (including Nutrition)**

The CFS

- *Appreciate*
 - Challenges Faced By Countries and their People from Food Price Volatility,
 - Opportunities and Threats posed by Rising Food Prices;
- *Focus* on Food and Nutrition Security especially of those who are vulnerable;
- *Encourage* International Organizations (UN and World Bank), Civil Society and Businesses to
 - Respond to the Political Demands of Countries focusing on the Specific Needs of Countries and People
 - Analyze and Appreciate Countries' Experiences
 - Share Results and Learn Lessons
- *Request* those supporting responses to work in Synergy
- *Stimulate* Governments to explore use of policies and tools

**Incorporate the Findings of this discussion in
the CFS Global Strategic Framework**