



A Global Food Import Financing Facility (FIFF): Responding to soaring food import costs and addressing the needs of the most exposed – Updated June 10th 2022

Setting the scene

Prices of foodstuffs began to rise sharply almost two years ago, culminating in the benchmark FAO Food Price Index making a giant leap up and reaching an all-time high in March 2022. The FAO Food Price Index reached an all-time high in March 2022. It has not eased significantly since then and remains 22.8 percent higher than in May 2021. The main factors behind the upward trajectory in food prices include robust demand supported by the swift and strong recovery from COVID-19 related economic contractions. In parallel with growing demand, higher prices for fertilizer and fuel have added to the cost of producing food and added to higher prices. Higher costs have been manifested on international markets through logistical hurdles, higher transportation costs and disruptions of supply chains. Together, supply constraints and robust demand catapulted food prices to unprecedented heights in March 2022.

The war in Ukraine has only exacerbated matters in recent months. Both countries are major producers and exporters of wheat as well as several other commodities, casting doubt on whether international markets will be supplied with enough food to meet the import needs of a global population fast reaching 8 billion. The Russian Federation is also the world's leading exporter of fertilizers, especially nitrogen, which the country derives from its vast natural gas reserves.

The 2008 food crisis, which caught the world off-guard owing to a confluence of factors that shocked demand and supply fundamentals in global food markets, sending food prices to record highs. Today, policy makers are aware that the world is facing a potentially similar situation, albeit with different drivers of crisis.

Particularly at risk are poor, economically vulnerable countries with large food import needs. It is therefore proposed to equip these countries with a Food Import Financing Facility (FIFF) that helps ease their immediate food import financing costs. By tapping into the FIFF, vulnerable countries could mitigate long-lasting impacts on their agrifood systems and reduce future needs for emergency assistance.

Who and how much?

As a first step, a technical background paper was prepared defining eligibility criteria for countries that are in prospective need of the FIFF. The background paper also assesses the overall costs of the facility under different eligibility assumptions. These first estimates suggest a funding volume of nearly USD 25 billion, covering the 62 most exposed countries, with a total population of 1.78 billion people. Eligible are food importing countries in low-income and lower-middle income groups of the World Bank income classification. It is further proposed to extend eligibility to food net-importing IDA (International Development Association) countries outside these two income groups.

At an assumed discount rate of 4 percent over the average commercial interest rate and a maximum credit volume of USD 25 billion, the net annual funding costs would amount to USD 1 billion (Table 1). To cover the most immediate needs, offering financing for just 25 percent of the current import costs, a funding volume of USD 6.2 billion would be required.

These amounts, even if provided on a full grant basis, represent just a fraction of the funding available from other sources. For instance, the August 2021 allocation of Special Drawing Rights (SDRs) of IMF reached a volume of SDR 456.5 billion, equivalent to about USD 650 billion. The 25 percent compensation option (table

1) of the FIFF, with a volume of USD 6.3 billion, would merely amount to one percent of this most recent SDR allocation.

Table 1: Estimated financing needs for different scenarios, all eligible countries

Scenario/Assumption	Funding needed, USD billions	Actual costs at 4% discount on interest USD billion
100 percent Compensation of the increased FIBs	24.6	0.99
50 percent Compensation of the increased FIBs	12.3	0.49
25 percent Compensation of the increased FIBs	6.2	0.25
10 percent Compensation of the increased FIBs	2.5	0.10
Compensation for all increases in the per capita FIBs above 50 USD/cap	17.9	0.71
Compensation for all increases in the per capita FIBs above 100 USD/cap	10.7	0.43

Alternatively, funding volumes could be based on additional import costs at the margin of, for example, USD 50 or USD 100 per person. These would translate into total funding requirements USD 17.9 billion and USD 10.7 billion, respectively. Other funding alternatives are outlined in table 1. More details are available in the technical background note.

The background note also proposes to equip the facility with “smart conditionality” options. For instance, conditionality that links access to the facility with commitments to invest in sustainable agricultural productivity growth would help contain future replenishment needs and could function as an “automatic stabilizer” for the Facility. Higher investments in agricultural productivity would lower food import needs and thus reduce the need to tap into the facility in the future. More generally, it could help promote agriculture-led overall development, as for instance proposed by the Malabo Declaration on Accelerated Agricultural Growth and Transformation for Shared Prosperity and Improved Livelihoods.

Decision areas

In a second step, a number of important decisions need to be made before the Facility can become operational. These include:

Identifying a funding organization. Obviously and most importantly, a funding organization for the facility needs to be identified. While the initial Cereal Import Facility (CIF) was operated only by the IMF, a distribution over and devolution to regional (development finance institutions) DFIs could be considered as an alternative. Regional DFIs have valuable insights into their countries’ overall crisis exposure, their crisis management capabilities, as well as their overall financial preparedness. They also have intimate knowledge of other development programmes and could embed the facility into those programmes.

Setting up a new facility or resurrecting an existing one. Closely linked to the choice of the responsible financing organization is the question whether it is preferable to resurrect an existing instrument or to create a new funding vehicle. For instance, the Facility could be embedded into the Global Agriculture and Food Security Program (GAFSP), a multilateral mechanism to assist in the implementation of pledges made by the G20 after the last food crisis in September 2009. While the inclusion of the FIFF would require important modifications to the GASFP, it could offer a faster pathway towards operationalising the FIFF

rather than establishing a new facility. The latter, however, may offer more degrees of freedom, including the design as a development facility with longer term orientation and smart conditionalities.

Assigning related normative tasks. There is also a need to assign a number of companion tasks in normative work areas. The FAO was the first to propose and has kick-started the process by identifying eligibility criteria and preparing an initial assessment of the funding needs. FAO is well-equipped to perform all related monitoring tasks; importantly, FAO regularly monitors and forecasts food import bills and publishes these in its biannual Food Outlook publication. The FAO is also well-prepared to undertake the stress tests that will be required to assess the impacts of possible price swings on the Facility overall and on every participating country in detail. Together with the OECD, the FAO maintains the Aglink-Cosimo modelling framework which has already been used to gauge the impacts of possible shocks affecting world markets and the related implications for funding of the Facility. The price endogeneity concerns described in the technical background note are of particular importance in this context. The price endogeneity effect reflects the risk that the facility further lifts food prices, a particularly pertinent concern in times of the current tight market situation. The related details are described in the technical background note.

Delineating the scope of the facility. A decision also needs to be taken on the future scope of the facility. There is growing evidence that the current high prices for food are likely to last, even if the war in Ukraine comes to a swift end. For one, food exports from Ukraine and the Russian federation to international markets are likely to remain lower for years; for another, high prices for agricultural inputs, notably fuels and fertilizers are unlikely to recede soon. In view of the current supply shortage for natural gas, the key feedstock for the production of N-fertilizers, priority in the use of natural gas is likely being given to industries with “systemic relevance” or economic activities that promise higher marginal returns than fertilizer production. Without attenuating these high production costs, resource-poor countries will find it hard to step-up agricultural productivity and reduce their exposure to high food import costs. This calls for a decision on whether the Facility be extended to also cover critical inputs. The prospect of lasting higher input costs suggests that the Facility would be extended to deal with elevated costs of agricultural inputs, namely fertilisers, fuels used to produce food, and perhaps even seeds and pesticides. Extending the Facility to cover input costs could lead to a win-win situation with countries increasingly able to meet domestic food requirements in a sustainable manner with a lessened dependence on international food markets. But it would also raise funding needs, and perhaps substantially so.

Determining the time horizon: emergency facility or development tool with a strategic reach. The prospect of lasting high costs for both food and inputs requires a decision on the desired time horizon envisaged for the facility, i.e., whether the FIFF should be conceived as an emergency facility or rather as a vehicle to help promote and foster sustainable agricultural development. The FAO information note underlined the possible detrimental effects of ad hoc policy measures and the importance of a long-lasting commitment to sustainable agricultural development.