Part 3
What should the policy response be?

What are the policy problems?

Faced with rapidly increasing food prices, many countries made policy changes or introduced new policy measures. High food prices pose a series of interrelated policy challenges. Most obviously, there is the short-run emergency of ensuring affordable food supplies for poor consumers in order to avoid increasing the incidence of malnutrition. While this can be achieved to some extent at least with available food supplies, there may also be some scope for measures to increase food production and moderate prices even in the short run. However, the main potential for a significant supply response and more stable prices is in the medium to longer term. The current problems reflect the continuing underlying precariousness of the food security situation in some countries and this needs to be rectified. High prices provide an incentive and an opportunity to producers in developing countries but, as indicated above, there are many constraints to be overcome if a significant supply response is to materialize in the medium to longer term. Actual policy interventions by governments around the world have emphasized a limited range of easy, fast-acting and cheap measures (especially trade policy measures) to secure food supplies for domestic markets and to moderate the cost to consumers. This short-termism, while entirely understandable in view of the emergency situation, means that in many cases medium- and longer-term needs to raise production have been neglected. Efforts to protect consumers from higher food prices need to be balanced against maintaining incentives for producers to achieve the productivity and production increases that are necessary to stabilize prices and supplies. Some of the short-term measures introduced by governments to address the immediate food security needs of poor consumers have held down prices for producers and, hence, incentives to invest in increasing productivity and production. There is a need for policy measures to be targeted, non-distortionary and positive towards agricultural investment.

Policy problems are not confined to the agriculture and food sectors. High food prices also have macroeconomic impacts. For food importers, these include balance of payments problems resulting from higher food import bills and increased inflationary pressure because food is such a large element in the consumer's basket of goods. Food exporters enjoying higher earnings from higher food prices on world markets may need to consider how best to manage increased export earnings in order to ensure that they are channelled into productive investments to stimulate long-run growth.

How have developing countries responded?

National policy responses to high food prices have varied in nature and effectiveness. In many cases, governments have used existing policy measures already in place. The policy responses made can be grouped into three broad categories, targeting consumption, trade and production, respectively (see Annex Table 1). There appears to have been relatively little action on longer-term measures.

Safeguarding food consumption

Many countries, especially least developed countries (LDCs), have intervened to safeguard poor consumers' access to food though a variety of emergency and "safety net" measures. These have included distribution of basic food staples (grains, bread and milk), cash to buy food (or food for work) to the most vulnerable groups – the poorest in urban and rural areas, schoolchildren or the sick in hospitals. Consumer price subsidies, especially for the main food staples, have been widely used. At the same time, some governments have also reduced consumption taxes. For example, price controls, through sales from public stocks at pre-set prices or simply freezing retail prices by decree, have also been used.

An FAO survey of 77 countries shows that 55 percent of them have used price controls or consumer subsidies in an attempt to reduce the transmission of price increases to consumers (see box). While such measures can be effective in controlling prices in the short run, they are expensive in terms of scarce budgetary resources and can distort food markets. Price controls can lead to rationing and suppress incentives to producers. Income transfers are less distortionary than subsidies on food and can be targeted on the poor and vulnerable, whereas non-selective blanket subsidies and price controls benefit the rich and poor equally. This also applies to other safety nets such as food and nutrition programmes.

Encouraging food imports and discouraging food exports

Many countries have introduced trade policy measures to curtail price increases and ensure adequate supplies on domestic markets. These include tariff reductions to facilitate imports, export bans and taxes to divert supplies onto domestic markets. More than half of the 77 countries in the FAO survey had reduced grain import tariffs and one-quarter had imposed export controls of some kind – either taxes or physical controls such as bans and quotas. In the short term, these trade measures are feasible, cheap and easy to implement. However, they may have adverse effects on incentives to expand food supplies through increased domestic production and on world markets by further restricting supplies and pushing up prices even more. While imposing export taxes raises some additional government revenue, a number of exporting countries have reported that export controls and, hence, low output prices coupled with high input prices actually led to decreased planting of cereals. Reducing import tariffs also incurs a loss of tariff revenue, which may make an important contribution to overall budgetary resources for development.

Boosting agricultural production

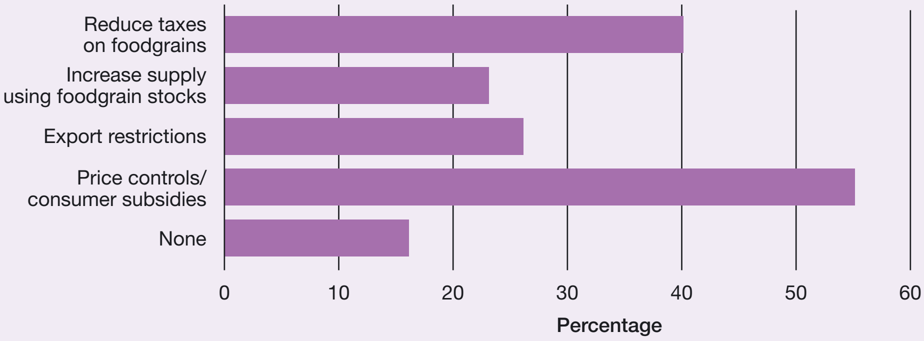
Reducing producer taxes, especially on grain production, has been a widely used policy to boost production in both low- and middle-income countries. Production subsidies, especially on grain production, have been used to reinforce incentives. Subsidies on inputs such as

FAO survey of policy responses

A survey of policy responses for 77 countries undertaken in May 2008 revealed the following: reduction in or elimination of cereal import duties in about half of the 77 countries; price controls or consumer subsidies in 55 percent of the countries; some form of export restrictions, including taxes, in one-quarter of the countries; and roughly the same proportion took measures to increase supply, drawing on cereal stocks. On the other hand, only 16 percent of countries surveyed had implemented no policy responses whatsoever.

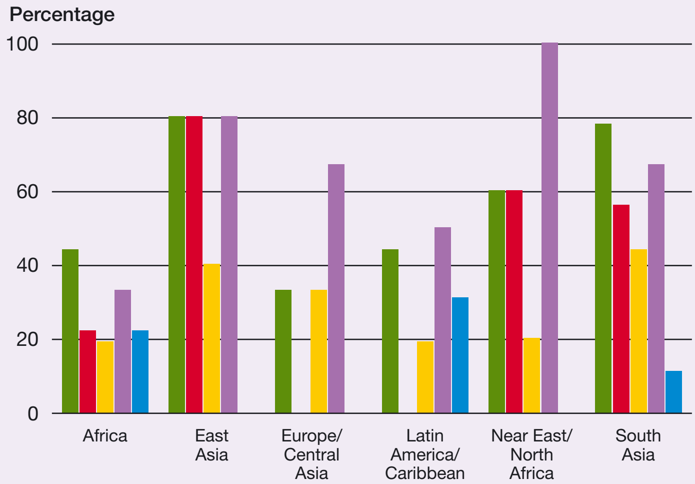
Policy responses also varied considerably by region. Countries in East Asia, South Asia and the Near East and North Africa undertook significant activities in all four areas of intervention. In every geographical region except sub-Saharan Africa, 50 percent or more of the countries reported using price controls or consumer subsidies. On the other hand, the regions of sub-Saharan Africa and Latin America and the Caribbean showed the lowest level of policy intervention, with roughly 20 and 30 percent of their countries, respectively, reporting no activity in any of the policy categories listed above.

Policy actions to address high food prices (sample of 77 countries by type of action)



Source: FAO.

Policy actions to address high food prices (sample of 77 countries by region)



	Africa	East Asia	Europe/ Central Asia	Latin America/ Caribbean	Near East/ North Africa	South Asia
Reduce taxes on foodgrains	44%	80%	33%	44%	60%	78%
Increase supply using foodgrain stocks	22%	80%	0%	0%	60%	56%
Export restrictions	19%	40%	33%	19%	20%	44%
Price controls/ consumer subsidies	33%	80%	67%	50%	100%	67%
None	22%	0%	0%	31%	0%	11%

Source: FAO.

fertilizer and seeds have also been common. While such subsidies and the distribution of productive inputs (e.g. seeds and fertilizers) can provide a short- or medium-term stimulus to production, these schemes can be costly and may lead to suboptimal use of these inputs, especially if they are maintained over a long period. In spite of a perceived need to secure adequate food supplies, some countries continue to control producer prices, setting the price lower than the free market price, or procure grains from domestic suppliers at low prices for stockholding. Moreover, the release of grain stocks at low prices puts downward pressure on prices, discouraging increases in domestic production.

What policy measures should be taken?

As the previous section showed, governments around the world have responded to high food prices with a variety of policy measures. Understandably, these have emphasized a limited range of fast-acting measures to secure food supplies for domestic markets and to moderate the cost to domestic consumers. However, the medium- and longer-term needs to increase food production and the international implications of unilateral national policy choices should not be overlooked. What the "best" policy choice is depends on a variety of considerations including the cause of the price increases, the severity of their impact, the size of the vulnerable population groups, their location, the policy options and policy space available to the government, the financial and budgetary situation, and the administrative and institutional infrastructures to implement policies. This section looks in more detail at the policy options and reviews the pros and cons of the various policy instruments available. These address two basic challenges. The first is to provide direct support to consumers, especially those in vulnerable groups, to help them maintain their food consumption levels through so-called "safety net" measures. The second is to increase supplies of food on domestic markets through manipulating food stocks or trade or by stimulating a short-run supply response from the domestic agriculture sector. Ultimately, it is increasing agricultural productivity and production that is the foundation for achieving adequate and stable food supplies and prices in the medium and long term, and care must be taken to ensure that short-run emergency measures do not compromise this goal.

Safety nets for poor consumers

"Safety net" is an umbrella term that covers various programmes aimed at assisting vulnerable population groups. It includes targeted food distribution programmes, targeted cash transfer schemes, feeding programmes and employment schemes. Many countries have one or more safety net programmes with varying degrees of coverage of the population and the extent of assistance delivered. An employment scheme may also be a guaranteed programme, backed by legislation. The case for targeted interventions can be made on budgetary cost grounds or to avoid leakage to non-poor populations. Although they can be administratively burdensome, they can be narrowly targeted on beneficiaries without creating distortions in the markets. A "food for work" programme can also be made self-targeting by the choice of the food distributed, the food that the poor consume, or by targeting an area with most vulnerable population groups.

In the context of high food prices, one of the problems noted is that not all countries have safety net programmes in place because of their budgetary costs and administrative complexity. Where this is the case, it will be very difficult to put in place a scheme in a short period, given the administrative, institutional and other supports required for this. It is only where such a scheme already exists that it can be scaled up when an emergency arises.

Cash transfers can include the distribution of cash or cash vouchers and can be tied to cash for public works programmes and/or microfinance initiatives. They are appropriate where food markets work and improved access to food is the objective of the intervention. In addition to providing the ability to procure higher-priced food, unrestricted cash transfers allow households to make decisions as to how to spend or invest the cash. For example, some households, in allocating labour to on-farm activities, may have produced sufficient food but may have limited cash for other consumption or investment needs. Such interventions can also foster local market development in food and other goods by

providing greater incentives to the private sector to engage in higher-volume, more stable marketing channels.

However, where markets work imperfectly, for example, where they are poorly integrated with other markets or where there is limited supply response to increased prices, such interventions can result in price inflation as the increased spending power bids up the prices of scarce goods. The design should be appropriate – in some contexts, increasing public-sector wages as a means of transferring cash can assist poorer urban consumers, but in other contexts, the poor are engaged primarily in informal-sector activities and may not benefit. Where food prices are increasing rapidly, adjustment to the value of transfers will be needed in order to maintain purchasing power, and this can be administratively difficult.

Other schemes aimed at ensuring that the poor have access to food offer less flexibility than straight cash transfers. Such interventions include food stamps or vouchers and conditional cash transfers (e.g. in exchange for attendance at schools or clinics). As with cash transfers, these interventions are appropriate where local food markets work and improving access to food is the objective. Vouchers can become a parallel currency in markets for food and other goods. As such, they can have some of the positive effects of unrestricted cash transfers in fostering local market development, but they tend not to be used for investment. The schemes tend to have higher transaction costs than cash-based measures and although restricting undesirable consumption may be an objective, this can be difficult. The design of these interventions can be complicated. For example, school feeding programmes can miss target populations, such as poor households without children who attend school. It is important, as with cash transfers, to determine *ex ante* any potential disruption to private marketing channels. Approaches such as vouchers, cash transfers and nutritional programmes should only be implemented in combination with targeted food sales through public food stores if private channels are constrained in their ability to scale up distribution. Otherwise, the side-benefit of fostering local market development will be diluted.

Local food supplies can also be augmented directly through the distribution of food aid, which is most appropriate where insufficient food supply is the main reason for reduced consumption. In such cases, cash transfers would result in price inflation, particularly where markets are not functioning well, or where food is in short supply as a result of weakly integrated markets, whether infrastructure- or policy-constrained. Food aid is also more difficult to divert to undesirable consumption and, therefore, is more appropriate in such situations. In addition, it places a lower budgetary strain on government resources.

Managing markets and stocks to increase food supplies

Governments in many countries also resort to a variety of other measures that may be called “market management policies”. These could include measures such as price controls through administrative orders, restrictions on stockholding by private traders, restrictions on interdistrict movement of foods, antihoarding measures, restrictions on futures trading of basic foods and open market operations selling public stocks of foods with a view to lowering market prices. These measures were fairly widespread in many developing countries in the 1970s and 1980s but have been discontinued in normal times for not being “market friendly” or pro-private-sector development. However, the fact that governments resort to such measures during food crises shows that they can help the situation to some extent.

Experience has shown that many of these measures may work for a very short period. However, they could also be destabilizing, as economic agents often react by hoarding and thus add to further price rises, defeating the basic purpose of such measures. The longer-term solution to this problem is to take measures to nurture various elements that will ensure that food markets function well and are competitive. The concentration of market power, observed typically for semi-processed or processed agricultural products, is perceived by society at large – as well as by the government – as a major source of the problem. The solution lies in effective pro-competitive policies that are lacking in many developing countries.

An important market management policy is open market operations – the selling of publicly held stocks to lower or stabilize domestic market prices. These operations used to be fairly widespread but many countries have now eliminated such programmes. In Asia in particular, these measures are actively used. Examples are open market operations by the Food Corporation of India, Badan Urusan Logistikin in Indonesia and the Rice Marketing Board in Viet Nam. The government parastatals maintain the food reserves through domestic purchases or imports, including food aid, and release the stocks when food prices begin to rise, which could be for seasonal reasons or owing to increased prices in the world markets.

The effect of these measures is to check food prices in the short run. However, food availability can only be augmented and prices restrained by releasing public stocks if adequate public stocks exist. This can be problematic given that maintaining stocks is a high-cost operation. Furthermore, releasing public stocks to hold down prices can have a negative impact on incentives for producers and traders, discouraging production expansion and investment. Unlike safety net measures, these operations cannot be targeted and they also benefit rich consumers who may not need the support.

Given the high costs associated with open market operations and the potential for unintended negative effects, most governments have preferred to rely less on stocks operations and more on trade policy measures to encourage imports or restrict exports for price stabilization. Trade measures are discussed below. However, where governments do not perceive trade to be a reliable source of food at short notice, some stockholding and open market operations are still carried out.

Cutting tariffs to increase food imports

Import tariffs raise the price of imported foods, protecting domestic production from international competition and in the process providing tariff revenues for the government. Reducing import tariffs increases the volume of imported food, adding to domestic supplies and slowing the increase in domestic prices. Being a policy that affects the market as a whole, reducing import tariffs has an impact on all households, food-insecure as well as food-secure, in contrast to the kinds of targeted policies described earlier. As prices climbed through 2007 and into 2008, many countries lowered tariffs initially, eventually eliminating them as world prices continued to soar. As there needs to be scope to reduce tariffs significantly to be able to offset such dramatic price increases, so tariffs have to be high enough to begin with to permit this. However, while the tariff rates "bound" in the World Trade Organization (WTO) might be high, those actually charged – the "applied" tariffs – tend to be much lower. Available tariff data show that the majority of developing countries did not have applied tariffs high enough to be able to use them to stabilize domestic prices as prices soared. In a sample of 60 LIFDCs, applied tariffs on cereals and key vegetable oils were already quite low in 2006 – in the range of 8–14 percent on average – and tariffs were much lower than these averages for the majority of LIFDCs. This means that reducing these applied rates, even to zero, was sufficient to stabilize only a small part of the overall rise in the world prices, which were higher by at least 50 percent in 2008 compared with 2006 levels. Therefore, tariff reductions alone could not be relied on to counter the dramatic increase in food prices. Reducing or eliminating import tariffs also reduces tariff revenues, which can be an important source of budgetary funds for many governments. Reducing all food import tariffs to zero would have cost LDCs about US$2.1 billion in lost revenue.

Besides reducing domestic prices and, therefore, the incentives for farmers and food manufacturers to invest and produce more, reducing import tariffs exposes the domestic agriculture and food sectors to greater international competition. Increased competition can provide a challenge to domestic food production to make additional efforts to increase competitiveness for the benefit of consumers. However, in many developing countries, the agriculture and food manufacturing sectors are weak and may not be able to withstand competition easily, especially where it is from imports whose production receives support. Therefore, there is the risk of compromising efforts to develop domestic agriculture and food sectors. Reductions in import tariffs may also have an impact on the country's exchange rate as they increase the incentive to import and reduce foreign currency reserves. This can lead to a depreciation of local currency, especially in the agriculture- and food-dependent economies. If agricultural inputs are imported and paid for in increasingly high-value foreign currencies, then the risk of high food prices could re-emerge, cancelling out the price reduction effects of the import tariff cut.

Restricting exports to increase domestic food supplies

About one-quarter of the countries in the FAO survey resorted to some form of export restrictions in attempts to ensure domestic food availability. These restrictions range from increasing or imposing export taxes through to outright export bans. They have been perhaps the most controversial of the various policy measures introduced in response to rising food prices. However, current WTO rules do not constrain policies on export taxes, while those on export restriction and prohibition are also very weak and essentially non-binding. By diverting a certain volume of food that would otherwise have been exported to the domestic markets, domestic prices are reduced, thereby providing relief to consumers. Where export taxes are used, the government also raises tax revenue, which might be used to fund other measures such as safety nets. On the other hand, by reducing domestic prices, export restrictions reduce incentives to producers. Producers may shift resources away from the taxed commodities to other activities. Therefore, the eventual result could be a decline in productivity and production, which might reverse the decline in prices that the policy initially intended to achieve. However, the main criticism of export restrictions is that they make the international market smaller and can exacerbate price instability in world markets, thus hurting consumers in other countries. This is especially so where the country imposing the export restrictions is a significant exporter of the product in question or where internationally traded volumes are small. Export restrictions also have longer-term implications – producers in the exporting countries may be discouraged from investing in agriculture and the price competitiveness of the export products in international markets is negatively affected. For net importing countries, the image of the world markets as reliable sources of food supply could be undermined, leading towards a policy of import substitution. As with cutting import tariffs, export restrictions may also have an impact on exchange rates. As export earnings decline, there will be pressure on the local currency to depreciate, increasing the domestic prices of imported goods, including agricultural inputs (adding a further disincentive to expand food production).

Overcoming supply-side constraints and institutional weaknesses

In the medium to longer term, increased productivity and production are seen as the structural solution for stable food supplies and prices. In principle, high agricultural prices provide producers with an incentive to expand production. In this sense, the high food prices can be seen as an opportunity. However, in many cases, realizing this supply response will require overcoming a variety of supply-side constraints. These include not only high input costs and a variety of infrastructural obstacles but also institutional weaknesses that lead to inefficient marketing systems and problems of access to inputs, credit and technology. Institutional weaknesses are a major cause of poor performance of developing country agriculture, especially in food production in Africa.

In general, these supply-side constraints cannot be addressed and overcome in the short run. However, there may be some scope for immediate action to improve access to necessary inputs, (e.g. seeds and fertilizers) that can enhance food availability in the following growing season. If implemented effectively, these immediate interventions can increase the income of small producers and may reduce price increases in local markets, thereby contributing to improvements in the nutritional status of net food-buying families. However, the budgetary costs of programmes to improve access to inputs can be high. Such programmes might include productive safety nets (e.g. seed and fertilizer distribution), smart subsidies to reduce selectively the cost of fertilizers and seeds, and support to finance institutions to help alleviate credit constraints. Efforts to improve access to inputs in the short run need to be designed carefully in order to avoid any potentially adverse side-effects, taking account of the availability of additional inputs and the possible impact on private-sector distribution networks. Where input markets are working and inputs are available but producers do not have the cash to buy them, voucher systems are appropriate, as free distribution could undermine input markets. Where input markets are not working, starter packs could be distributed. However, if local output markets are not well integrated, such interventions, in promoting increased production, could result in a fall in local food prices to the detriment of producers and wage labourers.

Short-term measures to improve access to inputs need to be supplemented and supported by longer-term actions to address institutional weaknesses, including facilitating the development of the private sector. These actions include research and dissemination of improved technologies through more effective extension systems, development of market and credit infrastructure and capacity building. Support needs to focus particularly on enabling poor rural producers – those least able to respond to changing market signals – to expand their production and market their supply. Often, they do not have even the basic information necessary to make rational and efficient choices about what to produce and how. They need information on market opportunities, price trends, appropriate input packages and production and marketing alternatives. Agricultural research needs to focus on the needs of these poor rural producers, and their capacity to take advantage of research results needs to be strengthened through more effective extension networks. The scope of individual smallholders to contribute to increased food supplies is limited by the economics of marketing outputs and buying inputs, which require a certain scale of operation to be viable. For example, there are significant economies of scale in the transportation of fertilizers, and it may be uneconomic to supply individual smallholders whose needs are small. However, individual smallholders can benefit from these economies of scale if they organize themselves to collaborate in accessing inputs (including credit) and marketing outputs. Organizing themselves into groups to market their outputs collectively can reap economies of scale in storage and in transporting products to market. Farmers' organizations, cooperatives and producer associations can all help smallholders to access inputs and market outputs more efficiently and on better terms. However, many producer organizations are weak. They also need support to strengthen their capacity to fulfil these roles.

Managing increasing food prices for investment

While high food prices can be seen as an opportunity to kickstart agricultural growth, the agriculture sector and commodity-producing households may fail to benefit in the long run if the high-price windfalls are consumed right away instead of invested. Unless the institutional environment in a country assists in the creation of investment opportunities, high prices will have no permanent impact on the sector. Governments play a crucial role even if the sector is not protected or characterized by price or trade policies. Commodity price booms have to be appropriately managed by producers, consumers and governments if they are to result in sustained benefits for commodity-producing countries and minimum costs for importing countries. Policies need to be put in place to provide incentives to private agents and promote favourable economic conditions for investment that will lead to long-run sustained growth and poverty reduction. This involves macroeconomic as well as sectoral policy measures.

Can the risk of high prices be managed?

Volatility in agricultural commodity prices creates risks for market participants whether as producers (revenue and export earnings risk) or as consumers (food import bill risk). Increasing international food prices prompt the interesting question of the extent to which commodity-dependent and net food-importing developing countries might benefit in the future from an increased use of market-based risk management tools to hedge against world market fluctuations. Futures, options and other forms of derivative contracts can be considered as tools to hedge against unpredictable changes in both import and export prices. However, such instruments are not designed to stabilize export revenues or import bills but only to make them more predictable. This can be beneficial to the extent that it allows proper planning of financial and other resources. In theory, the unpredictability of the import bills and export revenues of developing countries might be reduced through appropriate hedging. However, in most countries, a number of institutional obstacles need to be overcome before hedging the national import or export positions with the aim of promoting food security would become feasible.

Policy choices and complementarities: the need for a twin-track approach

Determining appropriate policy solutions to the problems caused by the recent sustained high food prices is not straightforward given the needs both for immediate action to protect the food security of vulnerable groups and for establishing a foundation for more stable prices and supplies in the future. There is a potentially strong relationship between measures to protect consumers against higher food prices and the enhancement of agricultural productivity. Well-designed complementary policy measures can encourage risk-averse food staples producers to take the risks necessary to invest in improved technologies. They can stimulate local market development, increasing volumes and reducing volatility. However, if poorly designed or implemented, they can distort incentives, discourage investment and be unsustainable in terms of budgetary resources. Clearly, this kind of policy conflict needs to be avoided. What is required are non-distorting safety net measures to address the immediate food security problems of the vulnerable poor coupled with incentives and support for the investment and productivity growth needed to ensure continuing food security in the longer term. Such a twin-track approach provides a coherent policy strategy that avoids the policy conflicts warned against above. However, budgetary costs can be prohibitive for some governments and the scope for financing such schemes through internal or external borrowing can be limited. Therefore, there is a need for international support.

The need for international action

There appears to be an expanding consensus that the appropriate policy response to sustained high food prices should be a package of safety net measures to address immediate food security needs and targeting those worst affected, accompanied by measures to encourage and facilitate supply response to stabilize supplies and prices in the medium and longer terms. However, it is also recognized that not all developing countries will have the resources, institutions or knowledge to design and implement such policies. Safety nets have a high budgetary cost and are administratively burdensome. Policies aimed at sustainable expansion of food supplies are also demanding in budgetary terms, requiring a reversal in the downward trend in investment in agriculture. As a result, many have resorted to cheaper and more readily implemented policies that aim to boost food availability and restrain prices on domestic markets but which may compromise incentives to producers to increase production and productivity and may have adverse effects on trading partners. Therefore, many countries need international support in the form of resources and technical assistance. The domestic policy problem also has an international dimension in that, most strongly in the case of export restrictions, policies introduced by one country to increase local food availability and restrain prices can reduce availability and increase prices to other countries. Thus, there is also a need for at least international discussion of policy choices to promote coordination and avoid these negative side-effects. The issues of high food prices and the impacts of policy are not only the preserve of developing countries. Developed-country policy choices, e.g. in relation to biofuels, are also relevant to the discussion of what should be done. More generally, many aspects of international food market developments and policy are the concern of the WTO and under negotiation in the Doha Round. Disciplines agreed in the WTO have a bearing on the choice of policy responses to high food prices.

High food prices are an issue of global dimension and, therefore, a matter for international debate and international action. The international community mobilized to deal with what was seen as an international food crisis through actions to mitigate the negative impact of high food prices on the poor and food-insecure and to help millions of poor farmers around the world seize the opportunity provided by greater demand for their products. The immediate food needs of the poor are being addressed through short-term actions that include increasing resources for food aid and safety nets in developing countries, providing more balance of payments and budget support to help meet increased food and energy bills, and financing emergency programmes aimed at increasing agricultural production in food-deficit countries. In the medium term, efforts are being made to restore agriculture to the centre of the development agenda, reversing the long-term decline in agricultural investment to ensure that it can continue to meet the demands of a world population that is increasing and becoming more urbanized and wealthier. In addition, greater policy coordination is being promoted to assist countries in making efficient policy choices, to maximize synergies in responding to high food prices and to avoid situations where one country's market intervention hurts others.

International support to meet immediate food needs

The top immediate priority is to ensure access to food for the most vulnerable. Expanded safety net programmes along the lines described above are seen as the most effective way of achieving this. They would include assistance in the form of food, vouchers or cash transfers, employment programmes (food or cash for work), school feeding and insurance schemes. Targeted programmes addressing the most vulnerable groups need to be scaled up. However, safety net programmes involve significant budgetary costs, which many developing countries will require international support in order to meet. For food-deficit countries, increasing food prices push up their food import bills, which together with higher energy costs lead to a need for balance of payments support. The IMF and the World Bank have an important role to play in providing balance of payments and budget assistance to those countries. Failure to do so runs the risk of jeopardizing important development programmes and projects as scarce national resources are diverted to meet immediate food import requirements.

Food aid was declining even as the need for it was increasing rapidly. Aid agencies found food more costly to procure as food prices increased. This prompted requests from aid agencies such as the WFP for additional funding even to maintain their current levels of assistance. Their difficulties were further compounded by increasing transportation costs. Given the high food prices, the declining trend in food aid needs to be reversed, with greater international support for relief agencies, particularly the WFP and the United Nations Children's Fund (UNICEF). High food and fuel prices mean that food aid can reach fewer people with the same resources. Food aid deliveries from the WFP declined almost continuously from 15 million tonnes in 1999 to 7 million tonnes in 2006. The cost to the WFP of delivering food to beneficiaries increased by more than 70 percent in the period 2002–07. Further increases between the end of 2007 and early 2008 meant additional costs simply to maintain the current low levels of assistance. The WFP and UNICEF have extensive experience in the development of safety net programmes, and in targeting

FAO's Initiative on Soaring Food Prices

FAO's Initiative on Soaring Food Prices (ISFP), launched in December 2007, targets current problems to avoid further deterioration. The ISFP has put in place emergency measures worth US$40 million in 57 countries. Much of the work carried out by FAO implies the scaling-up of existing programmes to support agriculture and rebuild the livelihoods of the rural poor, 80 percent of whom make their living in farming. FAO is working closely with United Nations (UN) partners, especially the World Food Programme and the International Fund for Agricultural Development, as well as the World Bank, the International Monetary Fund, regional organizations and development banks. The ISFP measures provide essentially start-up funds; they cover only the most immediate needs of small farmers in LIFDCs and aim to enable them to boost agricultural production for the upcoming planting seasons.

An ISFP Programme Document outlines the type of actions countries need to undertake in the short term (between now and the end of 2009) to face the food security crisis arising from high food prices:

1. providing seeds, fertilizer and tools together with good extension services to ensure the best possible use of the inputs supplied, which will lay the foundations for sustainable intensification of production in the future;
2. working to improve infrastructure, such as irrigation systems, market infrastructure and better rural roads;
3. strengthening know-how to add value to smallholder farmers' final marketable product by growing higher-quality and higher-yielding crop varieties or by utilizing processing techniques to diversify products, and facilitating supply contracts with agricultural companies that are secure and beneficial to farmers;
4. reducing losses (sometimes as much as one-fifth of the harvest) through better handling, milling and storage, defending crops and livestock from pests, sickness and disease (e.g. through integrated pest management systems), and taking measures to limit the impact of natural disasters.

In all these areas, FAO offers technical and policy assistance and advice, as well as capacity building, along with support in delivery where it already has strong emergency programmes in place. The ISFP Programme Document, complemented by action plans and specific project/programme proposals developed with countries, is now being used to mobilize resources to implement country action plans. The support provided by the ISFP is put in motion at the request of countries. Exactly what is needed is determined by needs assessment missions and consultations with governments. These focus on identifying the most vulnerable groups, those hardest hit by the food price increases. Possible response options and policy measures are then identified. Individual action areas include:

- provision of food security programmes, safety nets and social support networks;
- improving access to essential inputs such as seeds and fertilizer;
- help to improve water and soil management;
- technical support in all the above areas;
- policy assistance, which includes assessment of current agricultural and trade policies, tariffs, taxes, price controls, competition and market policies, and food security policies.

The resulting country action plans focus on the food security of the most vulnerable groups and aim at creating new opportunities for small farmers to access inputs, investments and technology and to take advantage of high market prices.

FAO has contributed significantly to the development of the Comprehensive Framework for Action (CFA), created through the UN Secretary General's High-Level Taskforce on the Global Food Security Crisis, partnered with other UN agencies and the Bretton Woods Institutions. All activities undertaken under the ISFP are fully consistent with the CFA and aim at achieving the Framework's short-term outcomes.

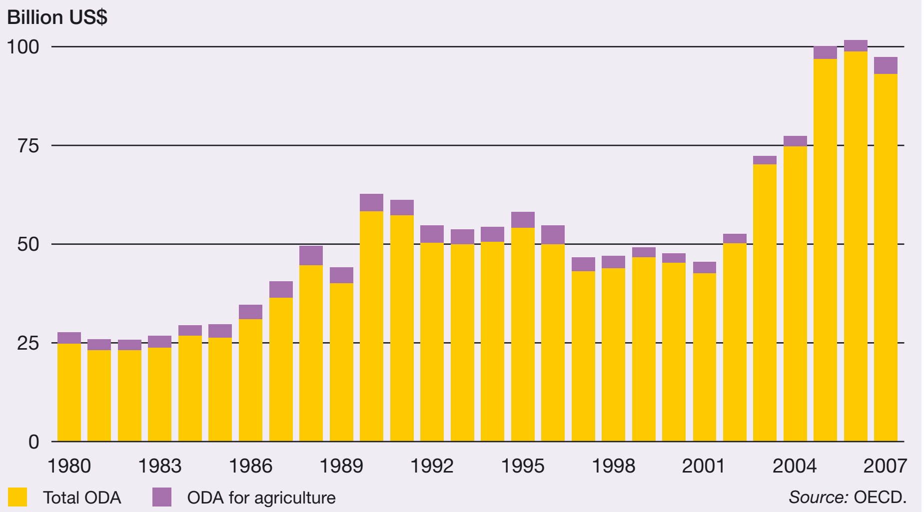
them to the most vulnerable especially women and children. However, they require additional resources in order to respond effectively to the current situation.

Some scope exists for increasing food supplies from domestic production in the short run. Support needs to focus particularly on enabling poor rural producers – those least able to respond to changing market signals – to expand their production and seize the opportunity offered by higher commodity prices. In fact, cereal production by LIFDCs (excluding China and India) declined by 2.2 percent in 2007 as international prices were rising. Yields in many LIFDCs continue to be much lower than the rest of the world, as they lag in the use of fertilizers, high-yielding varieties, irrigation, integrated nutrient and pest management, and conservation tillage. International assistance can help provide necessary seeds and fertilizers.

Support to investment in agriculture

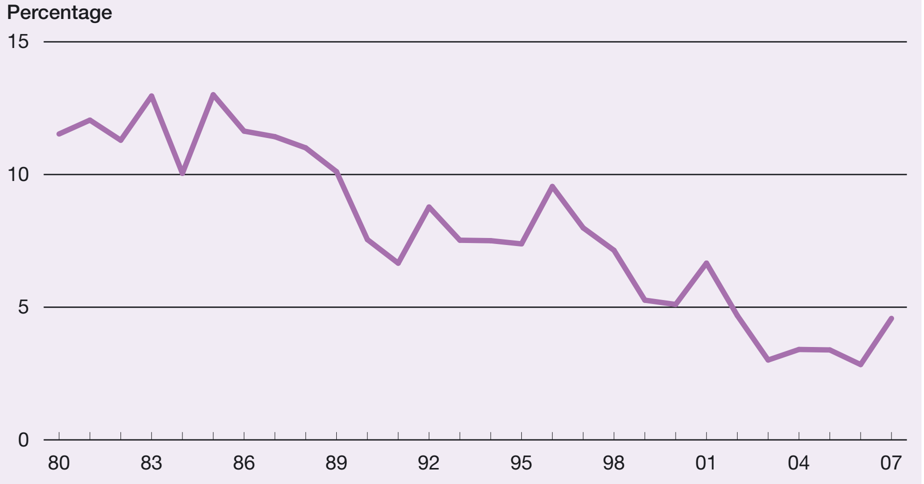
The high food price episode serves as a reminder of the fragility of the balance between global food supplies and the increasing needs of the world's population, and also of the fact that agriculture has been neglected in global efforts to reduce poverty. Thus, while the immediate need is to prevent human suffering from hunger and malnutrition as well as to induce a rapid supply response to restore a better balance between food supply and demand, these must be accompanied by actions in the medium term that will result in sustained agricultural growth. There is ample scope for substantial increases in agricultural production and productivity in developing countries. Production and productivity have not grown because resources channelled to agriculture have fallen. There is a need to increase public and private investment in developing country agriculture. Much more investment is required, particularly for water management, rural roads, marketing and storage facilities, as well as research and extension, yet investment in raising agricultural productivity has been trending downwards. In addition, there has been a slowdown in investment in international agricultural research centres even as new challenges, such as climate change and increased demand for biofuel feedstocks, have arisen.

Official development assistance (ODA)



Source: OECD.

Proportion of total official development assistance allocated to agriculture



Source: OECD.

The fall in resources devoted to agriculture has largely been caused by the sharp reduction in external assistance to agriculture. Total official development assistance (ODA) – combined bilateral and multilateral flows – increased sharply from US$43 949 million in 1997 to US$120 942 million in 2006 (all values in current US dollars). ODA directly earmarked for expenditure in the agriculture sector also rose, albeit more slowly, from just over US$3 000 million to about US$4 000 million in 2006.

However, as a proportion of total ODA, ODA for agriculture has continued to decline, falling from 7 percent in 1997 to less than 4 percent from 2002 onwards. However, 2006 suggests a slight increase in the proportion of total ODA allocated to agriculture.

Donors need to increase the share of ODA going to agriculture. Many donors expressed their willingness to provide additional funds and made pledges to address the immediate and longer-term agricultural and food security problems of developing countries at the High-Level Conference on World Food Security organized by FAO in June 2008. It is important that these commitments be maintained in spite of the financial crisis and global recession. More generally, the international community needs to take concrete steps to increase its capacity to respond in a coordinated and expeditious way to requests from developing countries not only for financial support but also for technical assistance to revive agricultural growth over the longer term. However, developing country governments also need to act by allocating additional resources to agriculture from their national budgets and by putting in place policies that are conducive to private-sector investment in agriculture.

Improving the policy environment

In addition to the need to ensure access to key productive inputs, a conducive policy environment is crucial if producers are to respond to the opportunities offered by high food prices and make the necessary investments to increase productivity and production. However, as noted above, some policy measures introduced by developing countries to cope with increasing food prices have militated against a significant supply response. Therefore, there is a need to promote greater policy coherence at the national level. In some cases, poor policy choices have been made simply because of a lack of reliable information concerning key market variables, such as available supplies, prices and especially stocks, both public and private. There is an urgent need to establish a comprehensive and reliable international market information system to provide a stronger basis for more efficient policy choices.

International organizations can provide policy advice and support to developing countries to mitigate the impact of high food prices, improve the food security situation, protect productive assets – including land – of rural poor households and enable them to benefit from the opportunities that high food prices create. The United Nations (UN) system can disseminate experiences and best practices to help countries prepare their policy frameworks and strategies. This could include:

- helping design food insecurity and vulnerability monitoring systems;
- identifying and assessing the effectiveness of alternative measures that could enhance the ability of producers to respond to improving market signals;
- assessing the impact of changing support to, and taxes on, food commodities;
- analysing how to use existing food distribution systems effectively and determining the most appropriate targeting criteria for food sales to vulnerable groups;
- assessing the appropriate role of food

reserves for reducing intra-annual price fluctuations and emergency shortfalls;
- determining the most effective means of enabling the private sector to participate more fully in agricultural development and, in particular, play a critical role in trade of food and supply of agricultural inputs.

The use of trade policy measures to increase domestic food supply may also have implications for other countries, notably in the case of export restrictions. This implies a need for better coordination of policy internationally, which the international organizations might facilitate. International trade policies fall under the jurisdiction of the WTO, whose rules, currently under negotiation in the Doha Round, provide the context for trade policy responses to high food prices. WTO rules are discussed further below.

It is not just in poor developing countries that policy changes might be introduced to increase food supplies and slow the increase in prices. If, as appears to be the case, biofuel production is commanding outputs and resources that would otherwise have contributed to food production, then reductions in subsidies or usage targets would correct for any market distortions. As described above, the emerging biofuels market is a new and significant source of demand for some agricultural commodities, such as sugar, maize, cassava, oilseeds and palm oil, that are also basic foods. A considerable part of the diversion of food commodities to biofuel production is considered to be policy-driven, notably by subsidies. One issue being debated actively is the WTO-compatibility of the biofuel subsidies. The other related issue is the indirect effect on food prices of subsidies on biofuel production and whether this amounts to cross-subsidization from the standpoint of the WTO Agreement on Agriculture or other Agreements. Aside from these legal aspects, there is also the ethical issue of whether subsidies that are perfectly legal from the WTO perspective should be removed if they have a negative impact on food supplies, poverty and food insecurity.

Ensuring that the WTO rules are supportive of policy measures to respond to future food crises

One of the problems addressed by the Uruguay Round Agreement on Agriculture (UR AoA) was excessive production and the resulting trade distortions caused by domestic and export subsidies. The Doha Round is continuing the reform process along similar lines. A question being asked in the context of the high food prices is whether some of the trade rules require rethinking so that governments and the international community can respond better to future food crises. Some of these would be rules on export restrictions and taxation on basic foods. While export taxation is not disciplined either by the UR AoA or by the parent General Agreement on Tariffs and Trade (GATT) 1994 rules, current discipline on export restrictions is rather weak, merely calling upon the exporter to give advance notification and to give due consideration to the effects of the restriction on the importer. One of the dangers of a weak discipline on export restrictions is that it raises doubts about the reliability of the world market as a source of food supplies.

Rules on food aid are likely to be made much tighter if the Doha Round is successfully concluded. While this will prevent circumvention of export subsidies, the draft provisions for food aid during non-emergencies – most probably events like the high food prices episode – may need revisiting so that appropriate triggers are built in to facilitate the provision of timely food aid in such periods also.

A third consideration is the coverage of countries for special treatment. Currently, several special treatments to counter negative effects of trade liberalization are limited only to the two groups of countries mentioned in the *Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries* (the Marrakesh Decision) – the LDCs and the net food-importing developing countries (NFIDCs). Aside from the LDCs, there are many other LIFDCs that are not among the NFIDCs but that also require special treatment or access to food aid, export credit, food financing facility and so on.

The current crisis of high food prices has been used both to argue for a speedy resolution of the Doha Round negotiations and to argue against any further reductions in protection that might result from a new agreement. Those arguing for a substantive agreement for further liberalization of agricultural markets have suggested that current levels of protection and support have depressed global market prices and curtailed incentives for investment in increased food production in many food-importing countries, contributing to recent surges in import bills. Those arguing against have pointed to evidence that liberalization would result in upward pressure on prices as surplus production in subsidizing countries falls. Perhaps more importantly, they raised concerns that further reducing the policy space available to developing countries to provide adequate protection in promoting the development of their agriculture would result in further reductions in investment in the sector, which could leave countries even more susceptible to rapid increases in food import bills in future crises. It was one of the proposed mechanisms for protecting vulnerable agriculture sectors, the Special Safeguard Mechanism, that proved to be the stumbling block that led to the breakdown of the negotiations in July 2008.

In general, it appears that current rules do not constrain policy responses to high food prices and that the draft agreement that was under negotiation was unlikely to have changed this situation. However, many rules could be improved and strengthened to promote future policy responses that are more appropriate both to implementing countries and to their WTO partners. The current impasse provides an opportunity for further debate and negotiation on rules and agreements that might reduce the potential negative impacts of future food price crises.

A system of global assurances of smooth supplies

Global food price spikes have the greatest negative impact on those countries that rely on food imports for a large share of their domestic food supplies, and among those, they affect even more negatively the many LIFDCs. If food security is to be enhanced for the LIFDCs (and FAO's current list includes 82 such countries) and if they are to avoid costly policies of food self-sufficiency, a reliable system of assurance of food supplies is needed for these countries on a bilateral and possibly a multilateral basis. Such a system can be built by reference to agreed "protocols for collaboration", much as the International Energy Agency has done for petroleum. A system of such protocols could be explored and agreed by all concerned in appropriate international or regional fora. Such protocols would also provide an enhanced form of international collaboration and should lead to a "win–win" situation.

A role for regional food reserves?

The hike in food prices fuelled partially by low levels of global cereal stocks has prompted discussion regarding the role of regional food reserves to help mitigate food shortages and reduce price volatility. If properly coordinated and managed, regional food reserves can assist food-import-dependent countries in particular in accessing food at stable prices, especially during times of crisis. Although the concept is well founded, implementation of such schemes is hampered by the need for *ex-ante* agreement among interested and participating parties in management – something that has proved elusive. Currently, only a few such schemes exist and, unfortunately, the experience with these has not been satisfactory. For example, experience with the IMF's Buffer Stock Financing Facility, a mechanism for facilitating the creation of buffer stocks, has shown that modest price stabilization achieved in practice by buffer stocks has typically been outweighed by the interest and carrying costs of the stocks (IMF, 1999). Similarly, the ASEAN Emergency Rice Reserve, a food reserve scheme established by the Association of Southeast Asian Nations (ASEAN), has seen reserves of only up to 87 000 tonnes, which equals a consumption volume for 0.4 of one day (0.1 percent of total demand) of ASEAN countries (MAFF, 2005), and hence has not had any influence on rice prices.

Food reserves can perhaps be better utilized for facilitating food availability during severe food shortages as opposed to stabilizing food prices, which requires availability of resources to finance imports. Thus, a more feasible approach to dealing with food price risks can be the setting up of mechanisms or facilities to assist countries in financing their food imports, especially during sudden, sharp emergencies.

The issue of a global arrangement to guarantee financing of food imports to LDCs and NFIDCs

The issue of possible difficulties in financing normal levels of food imports during food crises has been a recurring concern to NFIDCs from the time the Uruguay Round was negotiated, resulting in the Marrakesh Decision. One of the response instruments listed in the Marrakesh Decision is international food financing facilities. Work by FAO and the United Nations Conference on Trade and

Development (UNCTAD) since the Uruguay Round has revealed a number of constraints facing developing country importers at times of excess food import needs (because of domestic shocks) or higher international prices. One of the most severe is credit and exposure limits that export-financing institutions (mainly banks) place on themselves for financing destined to various developing countries. In times of excess financing needs, such as those accompanying the recent period of high food prices, these limits prevent private exporters to and importers in LDCs and NFIDCs from obtaining the appropriate letters of credit to finance exports and imports even if developing country importers have the capacity to pay for them. The idea that has followed from this logic is to create a system of public (nationally or internationally agreed) guarantees to the financial institutions (in both developed and developing countries) to augment the relevant credit ceilings under specific conditions.

In itself, this concept is not revolutionary. In recent years, the European Bank for Reconstruction and Development, International Finance Corporation, Inter-American Development Bank and the Asian Development Bank have introduced similar "trade facilitation schemes" to add risk capacity to the market. At a bilateral level, the Export-Import Bank of the United States, United States Department of Agriculture and some others have been doing this for years. However, little of this has targeted food importers in LDCs and NFIDCs, and these schemes do not have proper capacity-building components for local banks, which are often the weakest part in the chain. Moreover, OECD countries signed a commitment to set up a mechanism of this nature in the run-up to the creation of the WTO.

In that context, FAO and UNCTAD proposed in 2005, in a paper circulated to delegations in Geneva, the creation of the Food Import Financing Facility (FIFF). The FIFF would involve no new institution or additional financial resources. Instead, it would provide additional guarantees, utilizing existing multilateral facilities, to relevant export and import financing banks of exporting and also importing countries for the cost of excess (additional) food import bills during excess food import bill periods. Financing would be provided to traders via central and commercial banks, with the government of the borrowing country providing sovereign guarantees. The facility would utilize donor guarantees to allow banks to extend the relevant credit. Unlike some of the current international financing schemes, lending would not be limited by any conditionality (e.g. low balance of payments position of the borrowing country). However, in line with the Marrakesh Decision, priority lending could be accorded to LDCs and NFIDCs facing food crises. FAO estimated that, over the period 1974–2003, a system of such guarantees would have been required to guarantee "excess financing" of only about 2 percent of the total food import costs of LDCs and NFIDCs. Given the reservations regarding the feasibility of maintaining physical food reserves, it may be timely in the context of the recent food price increases to re-examine the rationale for this proposal and explore how it could be implemented in practice.

Mobilization of international action

The need for international action to assist developing countries suffering the adverse consequences of high food prices and the forms this assistance might take were discussed at the High-Level Conference (HLC) on World Food Security in June 2008. Representatives of 181 countries, including 43 Heads of State and more than 100 Ministers, and high-level representatives of international organizations, NGOs and civil-society organizations met in order to review the issues and address the challenges of high food prices.

The HLC's Declaration on world food security called on the international community to increase assistance for developing countries most negatively affected by high food prices through a programme of urgent and coordinated action. Donors and international financial institutions were urged to provide balance of payments and budgetary support to low-income food-importing countries and to assure the international agencies of sufficient resources to expand and enhance their food assistance and support safety net programmes. The Declaration called for assistance to countries to put in place policies and measures to help producers to increase production. Reaching consensus on the more contentious issues surrounding biofuels and their relationship to food availability and prices proved more elusive, and more detailed research was called for.

Although the HLC was not intended to be a pledging event, a number of donor countries and international financial organizations used the opportunity to announce significant additional financial support totalling more than US$12 billion. Perhaps even more importantly in the medium and longer term, the outcome of the HLC indicates a new recognition of the importance of agriculture, putting it back centre-stage on the development agenda, and a commitment to reverse the downward trend in agriculture-focused development aid. The HLC clearly called for increased food production and investment in agriculture in order to ensure food security.