



Issues Note for
Special Meeting of the Economic and Social Council
on
Global Food Crisis

20 May 2008, 3:00 – 6:00 p.m.

ECOSOC Chamber

Introduction

The global food crisis threatens millions of the poor and vulnerable. It has triggered violent protests around the world in Asia, Africa, Latin America and the Caribbean. It has brought into sharp focus the plight of the poor, the hungry and the malnourished, and spurred commitments to action from concerned individuals and institutions around the world. It has also led to deeper examination of how the world reached this crisis point.

The World Summit Outcome called on the ECOSOC to serve as a quality platform for the high level engagement of multiple stakeholders on emerging global trends to respond better and more rapidly to developments. The General Assembly (A/Res/61/16) calls on the Council to convene ad hoc meetings to raise awareness and promote the engagement of stakeholders in support of international relief efforts.

In response to the crisis and in accordance with its mandates, the Council will hold a special meeting in May 2008 to help in the process of defining a concerted, coordinated and comprehensive global response to the crisis. The meeting will address how best to identify and implement urgent actions at the country and sub-regional levels. It will also help to ensure a stronger commitment from all stakeholders – governments, the UN system, civil society and the private sector – to longer-term actions including investments in agriculture and rural development.

This background note has been prepared in consultation with the entities of the UN system¹ to help the meeting focus comprehensively on the complex issues which need to be understood in defining the global response.

Scope of the Problem

In the past two years and especially since late 2007, world prices of basic food commodities have risen steeply. The FAO food price index rose by 9% in 2006 and 23% in 2007 (see Annex Figure 1). As of

March 2008, wheat and maize prices were 130 and 30% higher than a year earlier. Rice prices have more than doubled since late January of 2008². The poor – especially the urban poor, but also the rural landless and small farmers who are net food buyers – have been most vulnerable to food price hikes, spending, as they do, a high proportion of household income on food. As cereals prices rise, households tend to reduce consumption of other foods (fruits, vegetables, eggs, fish) rich in protein and micronutrients. In short, higher cereal prices are contributing to worsening hunger and malnutrition.

In addition, it is recognized that the issue – and the responses to it – goes well beyond food prices. Risk assessments and plans are being discussed to respond to increased incidents of food-related violence, as well as the wider effects the food crisis may bring on: increased malnutrition, HIV and TB, peri-natal complications, water-borne diseases and fewer children in school. Rising food prices impact on poor households as they may be forced to forego expenditures on health and education, exhaust savings, incur ruinous debt, or sell productive assets. Many of these actions may further impoverish households for years to come.

The current situation calls for urgent action by the international community. For some vulnerable groups, even short-term food deprivation can have profound effects on survival chances, health and physical development. Moreover, progress towards achievement of the Millennium Development Goals (MDGs) will be undermined. Higher food prices have not only set back progress towards the reduction of poverty and hunger (MDG1), but will also make it more difficult to achieve the targets for education (MDG2), child and maternal mortality reduction (MDGs 4 and 5), and the spread of major diseases (MDG6). DESA estimates that high food prices risk pushing over 100 million people back below the \$1 a day poverty line.

The number of countries facing food crises keeps increasing. Characteristics of the countries most

¹ FAO, WFP, IFAD, UNDP, UNEP, OCHA, DESA

² *Rice Outlook/RCS-08d*/April 10, 2008, Economic Research Service, USDA.

vulnerable to the current crisis include: high initial poverty rates and food expenditure shares of household income; large net food and fuel imports; stagnant or slow agricultural productivity growth; large urban populations; high incidence of malnourishment, especially for women and children.

Poor households that were already food insecure will have to decrease overall food intake, that will lead to increased wasting and underweight incidence among young children. Another consequence is that vitamin and mineral deficiency rates (for example, Vitamin A deficiency and anemia) will increase, leading to increased morbidity and mortality, reduced work output and learning performance.

At the macroeconomic level, rising food prices are putting upward pressure on overall inflation worldwide, but hurting the food-importing low-income countries the most. Even as inflation pressures mount, Governments in some countries face growth slowdowns, complicating their macroeconomic management.

Besides the urgent need for immediate humanitarian assistance, the present food crisis has uncovered long-term structural problems in the global food system that need to be addressed if future crises are to be averted. These include the effect of producer support policies in the rich countries on the returns to investment of developing country farmers; a long-term decline in public-sector support, including from donors, for agriculture, rural development and food security in developing countries; decreased grain buffer stocks and increased reliance on global and regional markets to make up for domestic production shortfalls; the effect of increasing production of bio-fuels on food availability and prices; the effect of high energy prices driving up input prices and transport costs; the effects of climate change on food production and prices; finally, the effect of speculative investor activity in commodity futures and options markets on food prices.

During the last 50 years, the natural resource base, on which agriculture depends, has declined faster than at any other time in history. Some 75% of the

crop genetic base of agricultural crops has been lost. Degradation of ecosystem functions (e.g. nutrient and water cycling) constrains production and may limit the ability of agricultural systems to adapt to climatic and other global changes in many regions.

These structural shifts suggest that, even if the short-term supply response to high prices is strong, in the absence of robust medium-term measures to boost global food production, food prices may not come down to their previously low levels.

Key Contributing Factors to Recent Food Price Increases

A number of factors have converged in recent years to contribute to recent world food price escalation. There is fairly wide agreement on the main contributory factors, but less agreement on their relative importance.

On the demand side, an important factor has been rapid growth in demand for meat, dairy, and other high-value food products in rapidly developing economies (on average, 5 kg of cereals produce 1 kg of meat). Developing country economic growth rates of the past half decade have not been observed since the mid-1970s. On the supply side, declining rates of productivity growth for the major staple crops (wheat, rice, and maize) have also contributed. Population growth has outstripped productivity growth, while the decline in productivity growth itself is the result of a combination of factors, including: underinvestment in agricultural R&D, land degradation, growing water scarcity in some regions, constraints on women farmers, and, in some densely populated countries, the fragmentation of land holdings into uneconomically small plots. Furthermore, an increasing proportion of agricultural land is being devoted to non-agricultural uses and non-food crops.

More recently, other factors have contributed to the food price hikes. Two interrelated factors of particular note are: rising energy prices, which raise the costs to farmers of chemical fertilizers and pesticides as well as transport costs; the rapidly growing demand for bio-fuels, which is driven both

by high oil prices and by concerns about climate change. Developed countries have utilized tax credits, subsidies, and tariffs to promote their domestic bio-fuels sectors. A further consideration has been the adverse effect in the past few years of weather shocks – very possibly attributable to long-term climate change – on global grain supplies. The weakening dollar has also contributed to higher prices of commodities denominated in dollars, and investors appear to be using commodity futures as an inflation hedge and for risk diversification. Another factor has been growing concentration of agribusiness that has resulted in higher marketing margins.

Grain stocks have been drawn down for the past decade and are currently at their lowest level in a quarter century. While food commodity prices have long exhibited price volatility due to limited short-term responsiveness of supply and demand to price changes, that volatility has been increasing in recent years, in part because of a tighter correlation between food prices and volatile energy prices and the impact of futures, options and other financial markets.

Immediate Response Measures

Responding to the current crisis requires joint action that transcends the traditional divide between food aid and food security, cuts across humanitarian/development divides and identifies a range of immediate and complementary actions, including in the areas of food assistance, social protection and safety net measures, short-term agricultural boosts, and support to governments.

The top priority for the international community must be to ensure access of the most vulnerable to food, which can be achieved through emergency assistance and expanded **productive safety nets** (seeds, fertilizer and agricultural tools), food vouchers or cash transfers, employment programmes (food or cash for work), school feeding and other targeted nutrition programmes. It is critical that these safety nets target the most vulnerable, those who are already malnourished and those who are at risk to see their nutrition situation

worsen. It is also important for the international community to help governments to immediately boost food production and to coordinate efforts to bring some price stability to international markets for grains and other staples, so as to avert a further steep escalation in food bills for poor families as well as for international aid agencies and to reduce the uncertainty facing farmers.

i) Mobilizing additional resources

The World Food Programme (WFP) and other food assistance programmes must be adequately funded as soon as possible in line with rising costs as well as needs. At present, the WFP provides food assistance to some 73 million people in 80 countries, with an annual budget of \$3.1 billion. Surging food prices have led the WFP to make an extraordinary appeal for additional funds in the amount of \$755 million to support already approved programmes. Additional funding will be required to meet the food requirements of the additional millions of people estimated to be at risk of hunger and malnutrition.

Without additional resources and/or lower food prices, the WFP will be forced to begin cutting back on its food allocations in the near future. Until now, the WFP has made little use of futures contracts and hedging opportunities in its food procurement, but it may be worthwhile exploring the benefits and costs of their greater use.

Beyond a timely response by donor Governments, the private sector and the philanthropic community to the urgent appeal for additional food and funds to address the current emergency, **international financial institutions and donors should provide enhanced and much more generous balance-of-payments and budget support to food-importing low-income countries.**

ii) Strengthening social protection measures

Existing food safety net and social protection programmes need to be scaled up, including school feeding, other nutrition programmes, and food-for-work. Doing so will place demands on government budgets, and governments may need

access to compensatory financing facilities such as those provided by the IMF, but with swifter disbursement and fewer conditionalities than at present. Where Governments can scale up social protection programmes rapidly, there may be less need to rely on less targeted interventions like export restrictions.

iii) Targeted support to small farmers

In the face of high and rising energy, fertilizer and other input costs, small farmers in developing countries may be unable even to maintain current production levels and yields in the coming growing season. Thus, **it is imperative that financial and in-kind support be urgently extended to enable smallholder farmers to expand food production.** Programmes to increase immediate supply responses through the provision of support to production schemes (e.g. home gardens, off-season utilization of irrigated land for producing fast-growing vegetables or other crops) can produce food within weeks where weather and water resources permit. Seeds and fertilizers could be distributed to families or water user groups.

To some degree, the private sector – e.g. grain traders, farmers’ banks – can be expected to provide credit. However, governments often need to rely on their own budgets, supplemented by official development assistance (ODA) or other external public funds, to extend credit to farmers. The International Fund for Agriculture Development (IFAD) is making available up to \$200 million to enable smallholder farmers to obtain inputs (such as seeds and fertilizers) for the next growing season.

Governments and donors may want to engage private sector input suppliers in public-private partnerships to ensure timely and affordable supplies of seeds and fertilizers to enable small farmers to prepare for the next planting season.

In case of public purchase, contracts can be made with the private sector or NGOs for distribution. Seed fairs can be held and farm communities encouraged to start seed multiplication schemes. Vouchers may be considered where there is a good

network of private distributors. The private sector could provide valuable support in scaling up successful approaches quickly and sustainably.

Finally, programs for maintaining or rehabilitating rural infrastructure (roads, bridges, small irrigation schemes, storage and market facilities) could be supported through public works schemes.

iv) Reshaping global food assistance

The current crisis is an opportunity for the UN and other food assistance agencies to further our efforts to improve nutrition and food security in ways which better align emergency assistance with the **need to build sustainable nutrition and other food security programmes** in vulnerable countries, and which maintain and enhance agricultural production capacities in developing countries. One example is the targeted use of food vouchers, which can be a cost-efficient way to address food insecurity while boosting private sector supply capacity. **Higher prices on international markets should provide more impetus to greater procurement of food aid in developing countries** where local prices remain below international prices. This would help stimulate markets and local production.

v) Policies to reduce the impact

Governments have taken various policy measures to mitigate the impact of higher food prices. Analysis could inform policy interventions and **ensure the most cost-effective policy interventions.** Governments have used grain reserves, subsidies, price controls and trade restrictions to lower domestic food prices. Some of these measures have implications for the budget, long-term supply and trade conditions. It is essential that confidence in international grain markets be restored in order to curb price increases.

Enhanced Regional and Global Cooperation and Coordination

There is a need for closer regional and international cooperation to address both the causes and the consequences of high food prices and to work towards greater price stability. Cooperation, for example, could help ease market strains caused by export restrictions and stockpiling. At the regional level, cooperation could lay the basis for the quicker movement of stocks from food surplus to food deficit countries and localities. Regional cooperation dialogues could also improve food security arrangements. For instance, the New Partnership for African Development (NEPAD) has been examining how national food reserves could be better linked to regional food security and facilitate quick response to localized food shortages. In an encouraging new development, a group of African countries has joined together to create a pool of roughly \$500 million to help meet the urgent food needs of their people.

At the international level, discussions could focus on **how to make risk management and hedging instruments more readily available, affordable and useful to farmers, farmer cooperatives, food traders and governments in developing countries.** The international financial institutions need to ensure that insurance-type financing will be available to Governments in need. The IMF has indicated that it stands ready to provide rapid financial support to address balance of payments needs of countries hit by food trade shocks and to review its loan facilities to make them more responsive to the problem. Such support should assure easy access with minimum conditions.

Medium- to Long-Term Measures to Boost Agricultural Production and Productivity

In the medium term, Governments, with support from relevant UN agencies and development partners, should **develop comprehensive social protection strategies tailored to national situations, capacities and vulnerability patterns.** These would include food safety nets and

production support programmes. Examples are: targeted food and conditional cash transfer programmes, including school feeding; public works (food/cash for work); specific nutritional programmes for vulnerable children (from birth through primary school), pregnant and lactating women and people living with HIV/AIDS or tuberculosis. The strategy also needs to include effective assessment and targeting systems.

The neglect of agriculture in developing countries in recent decades needs to be redressed and ODA to agriculture significantly increased in order to significantly increase the productivity and net incomes of small-scale farmers and lift them out of poverty. The role of the world's 450 million small-holder farmers will be key. The strength of their response will depend on whether they can afford improved seeds, fertilizers, water and other inputs. They also need infrastructure to bring their produce to market, and better and more secure access to land and water resources. Support to strengthen organizations of poor producers is essential to ensure that farmers can leverage access to resources and markets, and maximize their earnings.

In Africa in particular, regional infrastructure would need to be strengthened, as inadequate storage, roads and shipping facilities often mean that food produced in one location is unaffordable or spoiled by the time it reaches markets in the main cities or in neighbouring countries, or is simply unavailable. This also applies to the movement of food in emergencies.

Also, far greater public agricultural research effort is needed to develop improved crop varieties and agricultural technologies, including for:

- 'orphaned' crops relatively neglected by the research and extension efforts which fostered the Green Revolution; e.g. sweet sorghum is a food, feed and fuel source important for parts of Africa which could benefit from genetic improvement;
- crop varieties suited to harsh growing conditions and adapted to the changing conditions being experienced or expected in

countries affected by climate change (e.g., tolerance of water stress, temperature stress, excessive rainfall and flooding, etc.);

- improved crop varieties which require fewer chemical inputs – e.g., pest-resistant varieties, varieties requiring limited fossil-fuel-based fertilizers;
- agricultural techniques which achieve sustainably high yields with minimal adverse or even positive environmental impacts;
- second-generation bio-fuels, obtained from plant residues and animal wastes, that can minimize land use change and avoid some of the emissions associated with certain current bio-fuel programmes.

Publicly funded research can develop new technologies to benefit small scale producers. It is imperative that intellectual property protection not impede access by small-scale producers in developing countries to such new technologies.

Towards a Concrete Action Plan

Immediate to short-term response

- The food crisis should be considered a **focus at the next session of the General Assembly**.
- **An urgent response to the appeal to donor countries**, private companies, philanthropies and citizens of developed countries to mobilize the additional funds needed to finance existing WFP programmes.
- **An urgent contribution of additional funding to meet emergency food assistance for over 100 million more people expected to be at risk of hunger and malnutrition as a result of the high food price crisis.**
- **Expanded assistance by donors and national governments to ensure access to production inputs by poor farmers** to enable them to at least maintain, if not expand staple crop and other food production in the next growing season.
- **Support by the UN system to help countries devise targeted food and nutrition support measures and social safety nets** for vulnerable populations in affected countries. Priority should be given to maternal, infant and child nutrition programmes.
- **The reshaping of programmes by the UN** and other food assistance agencies in ways which better align emergency assistance with the need for sustained food security and adequate nutrition, and which enhance agricultural production capacities.
- **The monitoring of food market conditions and price trends** by UN agencies to better assist countries to strengthen early warning and preparedness measures.
- **There is a need to examine, more systematically and on a priority basis, the links between markets, including financial markets, and the current food crisis.** A depreciating dollar, increasing inflation concerns, and declining equity and other asset

markets have led to strong investor interest in commodity markets, which has likely influenced recent movements in food prices.

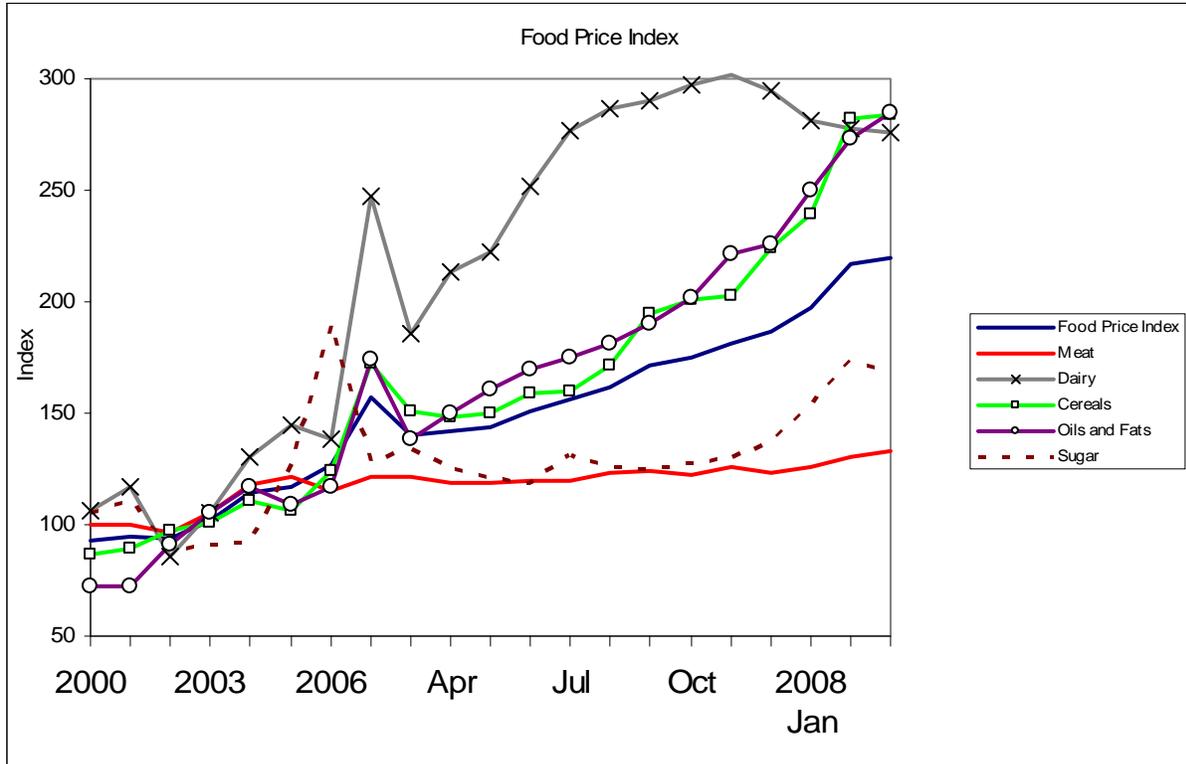
Medium- to long-term measures

- **Substantially increase public spending and donor funding for agriculture, rural development and food security, with a particular focus on smallholder farmers.** Key interventions include providing access to improved seeds, fertilizer, and financial and agricultural extension services; strengthening land and water management; improving rural infrastructure; strengthening farmers' organisations and increasing access to markets in close collaboration with the private sector. Increased support to publicly-financed R&D is also key to boosting agricultural productivity, while also protecting and conserving natural resources. Africa, in particular, should be a major beneficiary of such investments, with an R&D emphasis on food crops well suited to local agro-climatic conditions and with flexible use. The different needs and situations of women and men should be taken into account.
- **Eliminate developed country agricultural subsidies and tariffs in the Doha Round negotiations to help agricultural development in the poor countries.**
- **Provide adequate financial compensation and support to low-income developing countries which face high adjustment costs and worsening food insecurity due to higher world prices associated with agricultural trade liberalization, including through balance-of-payments and budget support from enhanced compensatory financing facilities.**
- **Reform international compensatory financing mechanisms** to make available more resources for swift disbursement to countries affected by food price shocks or other terms-of-trade shocks with minimal conditionality. Debt service suspension should also be considered.
- **Ensure the integrated and effective management of physical and natural resources.** Partnership with international agricultural research centres (affiliated with

CGIAR) and universities can help diffuse knowledge on conservation agriculture, integrated pest management, and sustainable soil and plant management practices.

- **Ensure that policies to promote bio-fuels** are the most efficient, consistent with food security and environmentally sustainable.

Annex Figure 1: Food Price Indices



Source: FAO