

De Geus, Aart; Leipziger, Danny; von Braun, Joachim; Zeigler, Robert Stewart

**Conference Paper**

## Preventing food prices from creating preventing from Creating poverty and malnutrition

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# Inequality: Tackling Poverty and Social Fragmentation

## Preventing Food Prices from Creating Poverty and Malnutrition

### Summary

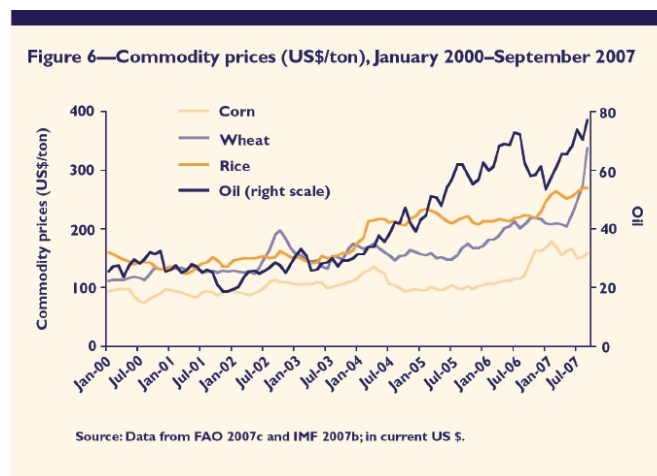
The recent surge in food prices is causing acute hardship and social unrest around the world. The poor, who spend large shares of their income on food, are most adversely affected. Since rising food prices command a larger share of a limited budget, the poor are forced to shift their expenditures to cheaper diets with less proteins and micro-nutrients, to reduce their expenditures on investment goods like education and health care, and to compromise on buying insurance against unemployment or on saving for retirement.



As a result, soaring food prices threaten to undo much of the progress developing countries have made in fighting chronic malnutrition and persistent poverty over the past decade, especially among the urban poor. At the same time, higher food prices are boosting the incomes of the producers of food, providing a unique opportunity for promoting agricultural and rural development in many low-income countries.

Which policies are needed to help the most vulnerable people in the short run and to increase agricultural production in the long run?

Which measures can be taken to maximise the benefits of rising food prices for rural smallholders in the developing world? How should agricultural trade policies and subsidy schemes be redesigned to ensure long-term global food security?



Source: **THE WORLD FOOD SITUATION**, p.6  
 New Driving Forces and Required Actions  
 International Food Policy Research Institute  
 Washington, D.C.  
 December 2007  
 Joachim von Braun



## **Proposed Solutions**

### **Expert Opinion**

#### ***How the Most Vulnerable People Can Be Helped in the Short Run***

Social protection programs should be scaled up to target cash and food transfers to vulnerable groups over a transition period where high food prices prevail in the absence of a substantial supply response. Such a policy intervention appears to be justified to prevent even larger future welfare losses that are likely to result from a decline in investment in education and health. To reduce the devastating long-term effects of malnutrition during childhood, school feeding should be introduced more widely, especially in the countries where the largest share of the poor lives in urban areas. For these countries, food aid should be expanded in the short run and for a limited time span, and country-of-origin requirements on food aid should be entirely eliminated. Policies that increase the price of food, such as import tariffs or subsidies for the production of bio fuels, should be removed.

#### ***How Agricultural Production Can Be Increased in the Medium and Long Run***

Agricultural policies in the EU and in the United States (and to a lesser extent in Japan) appear to be key to eliminate the massive distortions in global food markets that prevent a specialization according to comparative advantage and thus cause global welfare losses and depressed incentives for agricultural production in developing countries. Agricultural subsidies and all kinds of trade barriers for agricultural products in developed countries should be gradually eliminated. Developing countries, in turn, should limit price controls on food products and restrictions on food exports to provide improved incentives for domestic food production. Like the Advanced-Market-Commitment initiative that generates incentives to develop vaccines against diseases that prevail especially in poor countries, an international fund should be established to generate the incentives to develop higher-yielding seeds, in particular for African agriculture. Foreign aid and agricultural extension services should be used to improve smallholders' access to essential agricultural inputs such as improved seeds and fertilizer. In addition, an economy-wide shift to the principles of good governance may be necessary to relieve constraints on agricultural investments, including credit market failures or a lack of property rights for smallholders and other disadvantaged groups.

### **Strategy Perspectives**

#### ***Strategy Perspectives***

Aart de Geus

*Deputy Secretary-General, OECD*

#### ***OECD Strategic Perspective, Based on Research of OECD/FAO***

- Recent steep price increases of major crops (cereals, oilseeds) were triggered by a combination of production remaining somewhat below trend and strong growth of demand.
- A low and declining level of stocks has added to the price rise, as has probably a significant increase in investments in agricultural derivative markets.



- The OECD-FAO Agricultural Outlook expects prices to come down again, but not to their historical levels. On average over the coming ten year period, prices in real terms of cereals, rice and oilseeds are projected to be 10% to 35% higher than in the past decade.
- The acute price hike adds to inflationary pressures in developed countries. Poor consumers in developing countries, and food importing developing countries overall, will have to spend an even higher share of their limited income on food.
- In the short term, humanitarian aid is required, where appropriate in the form of cash or vouchers so as to strengthen, rather than undermine domestic markets in recipient countries.
- In the medium term, there is a need to foster growth and development in poor countries, to improve the purchasing power of food buyers. Agricultural trade policies require further reform. Investments in productivity growth, particularly in less developed countries, should strengthen the supply side of global agriculture. On the demand side, the rapid increase in policy-induced demand for biofuels warrants a close look.
- The OECD has the capacity to act and is therefore engaging in a series of actions to monitor developments, to call for sound international policy responses and to design a comprehensive development strategy. It stands ready to contribute to an effective and coherent global response, in close co-ordination with other international organisations.

### ***Preventing Food Prices from Creating Poverty and Malnutrition***

Danny Leipziger

*Vice President, Poverty Reduction and Economic Management Network, The World Bank*

Sharp food price increases will have a damaging impact on poor households' incomes and threaten to increase poverty levels unless governments intervene in a smart way. Governments need to avoid poor policy choices, such as price controls, export bans, and generalized subsidies and opt instead for targeted income transfers and effective nutrition programs. Both entail fiscal costs, however.

The solution that is least damaging to growth prospects involves a large portion of the incremental fiscal cost being borne by donors, implying larger and adaptable budget support as part of ODA and a redirection of expenditures to the poor. A bad outcome would be cuts in infrastructure investments that limit future growth. **For each dollar of reprogrammed spending from inefficient general subsidies to targeted income support, donors should pledge a dollar of incremental untied assistance for 2009 and 2010.**

### ***Statement***

Joachim von Braun

*Director General, International Food Policy Research Institute*

The complex causes of the current food and agriculture crisis require a comprehensive response. In view of the urgency of assisting people and countries in need, the first set of policy actions – an emergency package – consists of steps that can yield immediate impact:

- expand emergency responses and humanitarian assistance to food-insecure people and people threatening government legitimacy,
- eliminate agricultural export bans and export restrictions,



- undertake fast-impact food production programs in key areas with a focus on seeds, fertilizer availability, and credit,
- change biofuel policies for grains and oilseeds.

A second set of actions – a resilience package – consists of the following steps:

- calm markets with the use of market-oriented regulation of speculation, shared public grain stocks with a “virtual” grain reserve, strengthened food-import financing, and reliable food aid,
- invest in social protection and early childhood nutrition among poor population groups,
- scale up investments for sustained agricultural growth, including scaled up research and innovation linking the challenge of climate change for agriculture, and
- re-launch multi-lateral trade negotiations focused on a set of well defined doable issues that facilitate market access of low income countries.

Investment in these actions calls for additional resources. Policymakers should consider mobilizing resources from four sources: the winners from the commodity boom among countries; the community of traditional and new donor countries; direct or indirect progressive taxation and reallocation of public expenditures in the affected countries themselves; and mobilization of private sector finance, including through improved outreach of banking to agriculture.

Because of countries’ diverse situations, the design of programs must be country driven and country owned. Accountability for sound implementation must also rest with countries. At the same time, a new international architecture for the governance of agriculture, food, and nutrition is needed to effectively implement the initiatives described, and especially their international public goods components. Global and national action is needed, through existing mechanisms, and well-coordinated special initiatives.

### ***The Rice Crisis: What Needs to Be Done?***

Robert Stewart Zeigler

*Director-General, International Rice Research Institute*

In early 2008, skyrocketing rice prices put the grain on the front pages of major newspapers across the world. This background paper explains the reasons behind the rapid increase in rice prices and what must be done to achieve reliable, plentiful supplies of affordable rice.

#### ***What Happened?***

The poorest of the world’s poor are the 1.1 billion people with income of less than a dollar a day. Around 700 million – almost two-thirds – of these people live in rice-growing countries of Asia. Poor people spend up to half of their income on rice alone and, in many cases, receive more than half of all their calories from rice.

The world price of Thai rice, 5% broken – a popular export grade – in December 2007 was \$362 per ton. By May 2008, the price had tripled, breaking through the \$1,000 mark. As the Asian harvest brought new rice into the market in June, prices began to come down but, by July, remained around double the December 2007 price.

In early 2008, in response to supply problems, major exporting countries such as Vietnam and India imposed export bans or restrictions to protect their domestic consumers. By thus reducing the supply of rice in the world market, these restrictions accelerated the price rise.





Consequently, importers rushed into the market to buy more rice to meet their consumption needs and build their own stock. Hoarding and speculation by traders added fuel to the fire.

### ***What Are the Underlying Reasons?***

#### *We Are Consuming More than We Are Producing*

Many factors, both long- and short-term, have contributed to the rice crisis. At a fundamental level, the sustained rise in the price over the past 7–8 years indicates that we have been consuming more than we have been producing. Rice stocks are being depleted, with current stocks at their lowest since the 1970s.

#### *Annual Growth in Yield Is Slowing*

A major reason for the imbalance between the long-term demand and supply is the slowing growth in yield, which has decreased substantially over the past 10–15 years in most countries. Globally, yields have risen by less than 1% per year in recent years – slower than population growth and down from well over 2% during the Green Revolution period of 1970–90 (also see Running out of steam on page 41).

#### *Reduced Public Investment in Agricultural Research, Development, and Infrastructure*

The slowdown in yield growth has been exacerbated by reduced public investment in agricultural research and development – the very engine that drove productivity growth to begin with. Investments in irrigation, which peaked during the Green Revolution period, have decreased substantially. Existing irrigation infrastructure has deteriorated considerably.

#### *Little Room for Expansion of Rice Area*

The possibility of increasing the rice area is almost exhausted in most Asian countries. In many areas, highly productive rice land has been lost to housing and industrial development.

#### *Demand Growth*

Three key factors have contributed to steady growth in demand for rice, which is increasing globally by around 5 million tons each year – more if rebuilding of stocks is taken into account. First, population growth is outstripping production growth. Second, rapid economic growth in large countries such as India and China has increased demand for cereals, both for consumption and for livestock production. Third, rice is an increasingly popular food in Africa, with imports into Africa accounting for almost one-third of the total world trade.

#### *Oil Prices*

The price of oil has increased rapidly during the past year. This has pushed up freight costs for countries that import rice. The world price of oil-dependent fertilizers – essential for rice production – has increased sharply, with the price of urea exploding. The rapid growth of the biofuel industry has also increased pressure on international trade of grains and livestock feed, as well as on agricultural land in some countries.

#### *Extreme Weather*

Natural disasters, such as flooding, drought, and typhoons, have contributed to recent production shortfalls. Climate change is expected to increase the severity and frequency of such extreme weather events. Global warming is also projected to hurt rice production.



### *Reoccurring Pest Outbreaks*

Many pests that caused major problems for rice intensification programs in the 1970s and 1980s have returned as major threats to production, primarily due to breakdowns in crop resistance and the excessive use of broad-spectrum, long-residual insecticides that disrupt natural pest control mechanisms.

### *How Do Price Rises Affect Poor Rice Consumers?*

Although more expensive rice may help farmers who produce more than they consume, a rise in the price of rice is equivalent to a drop in real income for the majority of the poor who are net consumers of rice. Higher prices increase the number of poor people and push people deeper into poverty and hunger, forcing them to sacrifice essentials such as more nutritious food, health care, and children's education – thus condemning future generations to a vicious poverty cycle. Higher food prices also affect the poor indirectly as international relief agencies are forced to reduce or cut programs.

### *How Do We Prevent Shortages and Price Rises?*

Given the structural reasons that contributed to the price rise in 2008, rice prices are not expected to fall to anywhere near their historic lows. And, without the buffer of high stock levels, there is an increased risk of additional sharp price rises.

The best strategy for keeping the price of rice low is to ensure that production increases faster than demand. Rice production can be increased by expanding the area planted to rice, by increasing the yield per unit area, or by a combination of the two. With limited opportunity for increasing Asia's rice area, the main source of additional production will need to be yield growth.

Productivity growth through the development and dissemination of improved technologies is the only key long-term viable solution for bringing prices down, preventing future increases in price, and ensuring that affordable rice is available to poor rice consumers.

To achieve this, a second Green Revolution is needed now as much as the first was needed to avoid famine and mass starvation. Increased research investment together with policy reforms that make rice markets more efficient will help bring rice prices down to a level affordable to the poor and, ultimately, reduce poverty.

### *What Needs to Be Done?*

Recent advances in science and technology offer unprecedented opportunities to not only solve current problems but also develop agricultural systems that can help millions of rural poor lift themselves out of poverty. In the near term, urgent actions from national governments and international agencies are needed on two fronts: rapidly exploiting existing technological opportunities for increasing rice yields and policy reforms to improve poor people's food entitlements. Rice production can be revitalized, but there are no silver bullets. Investment by the world community is essential.

### *IRRI's Action Plan*

Some of the following actions deal with the immediate crisis while others provide long-term solutions to prevent future crises.

- **Bring about an agronomic revolution in Asian rice production to reduce existing gaps between achieved and potential yield.** Yield improvements of 1–2 tons per hectare can be achieved through the use of better crop management practices, particularly in irrigated environments.



- **Accelerate the delivery of new postharvest technologies to reduce losses.** Postharvest includes the storing, drying, and processing of rice. New and existing technologies can substantially reduce the considerable postharvest losses – in terms of both quantity and quality – suffered by most Asian farmers.
- **Accelerate the introduction and adoption of higher yielding rice varieties.**
- **Strengthen and upgrade the rice breeding and research pipelines.** The steady decline in funding for the development of new rice varieties must be reversed in order to develop the new varieties and crop and resource management systems required for sustained productivity growth.
- **Accelerate research on the world's thousands of rice varieties so scientists can tap the vast reservoir of untapped knowledge they contain.**
- **Develop a new generation of rice scientists and researchers for the public and private sectors.** Asia urgently needs to train a new generation of rice scientists and researchers – before the present generation retires – if the region's rice industry is to successfully capitalize on advances in modern science.

For more information, visit <<http://solutions.irri.org>>.