



Higher Food Prices: Challenges and Opportunities for ECA Countries

Asad Alam
The World Bank

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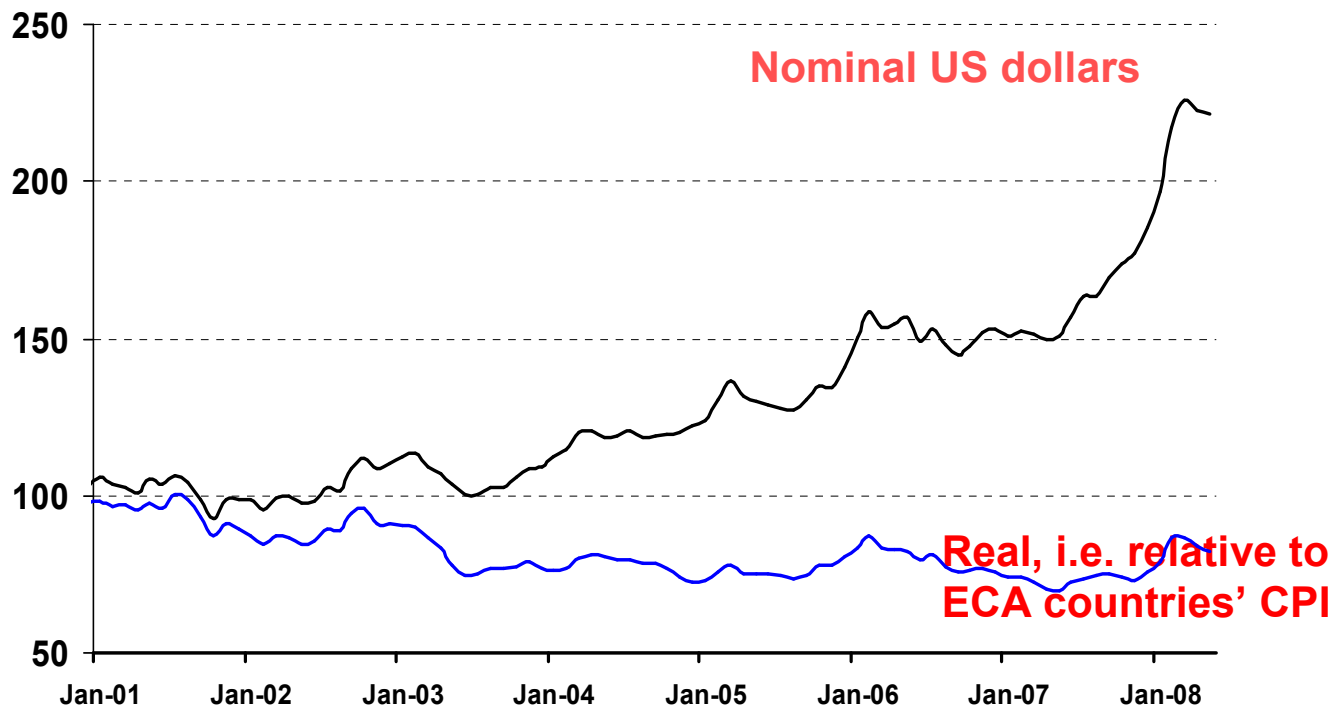


Key Messages

1. Higher prices are here to stay, but inflationary trends should abate
2. ECA countries have responded through a variety of heterogeneous policies with mixed effects
3. Higher food prices pose three main challenges
 - managing inflation, protecting the poor and vulnerable, and providing food security
4. The food price crisis also creates an opportunity for reform:
 - improving incentives in agriculture, strengthening social safety nets, developing new risk mitigation instruments, and building effective poverty monitoring and evaluation systems

1. World prices have increased sharply in US dollars, but less so in real terms

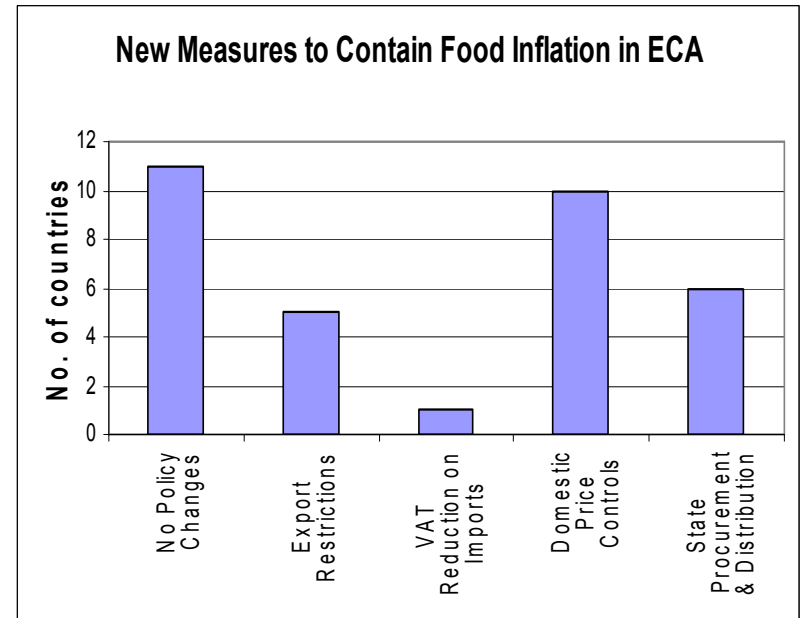
International food price indices, 2000=100



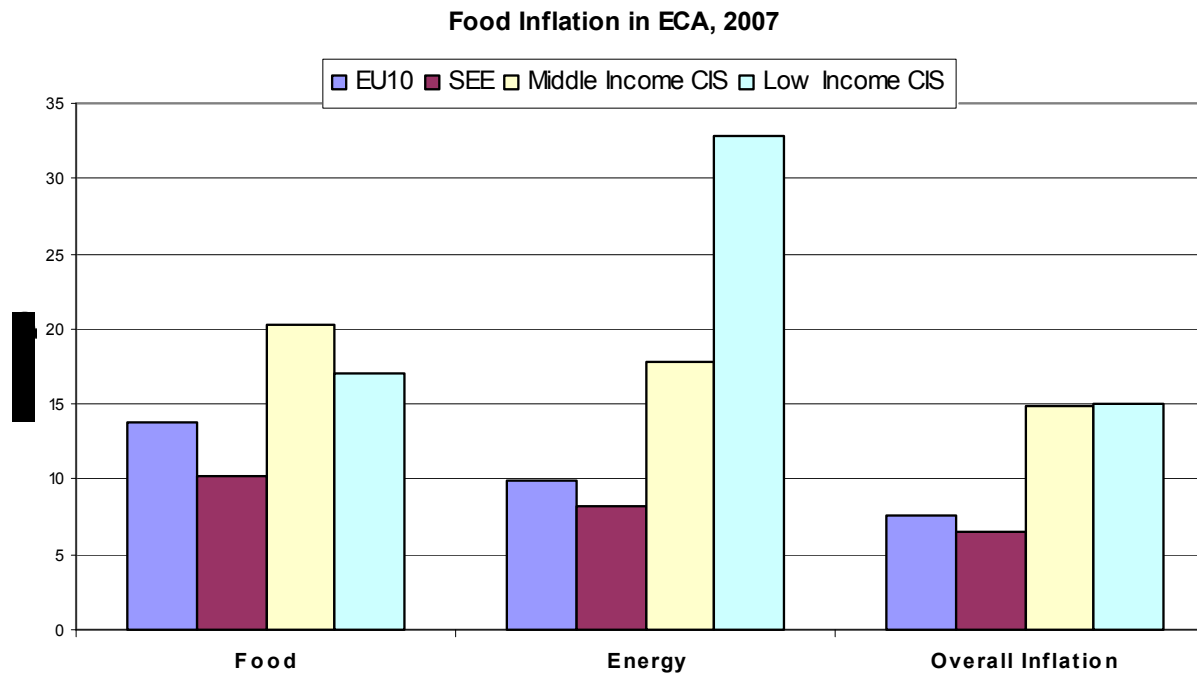
Source: DECPG

2. Country responses have been varied and short-term in focus

- Many countries, esp. in the CIS, have slowed price adjustment
 - Many have imposed domestic price controls
 - Several exporting countries have banned or restricted exports
- The EU has provided a strong policy anchor for the new member countries



3. Challenge 1: Managing Inflation



- ECA countries face the double shock of higher food and energy prices; these complicate macroeconomic management



Challenge 2: Protecting the Poor and the Vulnerable

- Food accounts for 40-60 percent of household consumption in low income countries
- Simulations based upon household surveys suggest that the impact on poverty could be significant – a 5 percent relative increase in food prices could increase poverty rates by 2-3 percentage points
- Poverty impacts are likely to be higher in urban areas where most people are net consumers of food grains
- Poverty impacts are high because of large number of people just above the poverty line

Challenge 3: Providing Food Security



- CIS major exporter of grain – in 2007, exported 27.6m tons and imported 6.6m tons
- But only 3 major exporting countries (Ukr, Kaz, Rus); most other countries depend upon imports
- Export restrictions impoverish importers; domestic price controls help consumers but reduce incentives for farmers to raise production
- Food security depends upon:
 - open trading regime
 - proper incentives for domestic production and marketing
 - adequate social safety net
 - good information system



Policy Actions over the Short-term

- **Social safety net**
 - Top up well targeted social safety net programs to provide additional transfers to the poor and the vulnerable
 - Closely monitor changes in poverty and social indicators
- **Agriculture sector**
 - Increase dissemination of information about wheat stocks and flows
 - Eliminate producer subsidies and use savings to finance increases in social assistance
- **Macroeconomic**
 - Allow full price pass through to provide incentives for (i) farmers to increase production, and (ii) consumers to reduce consumption
 - Actively manage inflation through appropriate instruments; maintain an open and transparent trading regime

Communication: Explain the economic situation and policy choices to the people



Opportunities

- **Macroeconomic**
 - Strengthen open trading system

- **Agriculture**
 - Improve production incentives
 - Strengthen marketing/value chains
 - Invest in rural infrastructure and social services
 - Develop crop insurance and other risk mitigation instruments for farmers

- **Social Safety Net**
 - Develop targeted and effective social safety net programs

- **Poverty Monitoring and Evaluation System**
 - Strengthen poverty monitoring and program evaluation
 - Improve quality of household surveys and make them publicly available



Conclusions

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