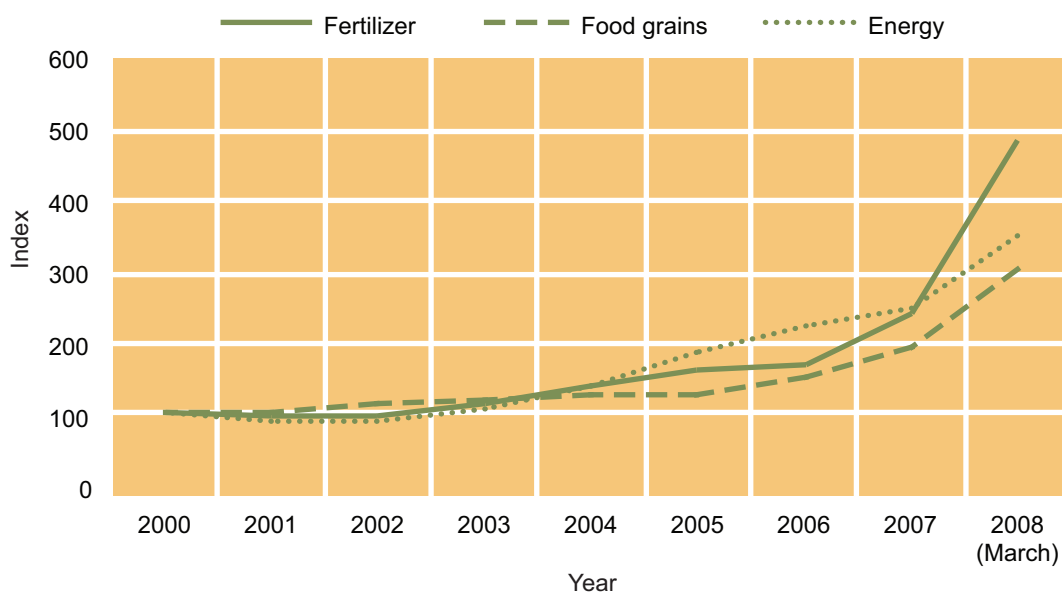


**SKYROCKETING FOOD PRICES:
TRENDS, CAUSES, AND PROSPECTS**

Food grain prices have more than doubled since January 2006, and more than 60 percent of this increase has occurred since January 2008 alone (Figure 1). Individual grain staple prices have increased even more, with monthly average wheat prices doubling since January 2006 and rice prices tripling between January and April 2008 alone. Although the United States Department of Agriculture predicts record production in 2008 and 2009 for wheat, corn, rice, and oilseeds, the impact of increased supply on prices is only expected to be gradual, with prices likely to remain above 2004 levels through 2015 for most food crops (Table 1).

Figure 1. World Bank Weighted Index of Commodity Prices



Source: World Bank, Development Prospects Group

Table 1. Index of Projected Real Food Crop Prices (Real Prices: 2004=100)					
Crop	2007	2008	2009	2010	2015
Maize	138	182	197	194	148
Wheat	144	201	179	156	131
Rice	128	231	208	155	160
Soybeans	119	156	149	142	115
Soybean oil	136	187	173	160	110
Sugar	133	157	167	176	182

Source: World Bank, Development Prospects Group.

Prices have risen due to a number of individual factors that have led to a price spiral, including: high energy and fertilizer prices; the depreciation of the US dollar; sharply increased use of both cereals and vegetable oils in bio-fuel production; and declining global stocks of grains due to changes to buffer stock policies in the US and EU. Droughts in Australia, growing global demand for grains (excluding for bio-fuel production), and investors' speculative activity have played a lesser role. Counterproductive policies on the part of key exporters and importers have worsened the effects of these underlying structural factors, such as the introduction of export restrictions and bans by countries on rice and wheat, and panic-purchasing by large rice importers.

THE IMPACTS ON GLOBAL POVERTY AND COUNTRY FISCAL POSITIONS

Rising global food prices are contributing to high domestic prices. As a result, up to 105 million additional people worldwide could

fall into poverty. Even in countries where food security is less precarious, such as Tanzania, the price of the key staple, maize, has doubled in the past year. Recent World Bank studies suggest that total world poverty may have increased by 73 million to 105 million people due to rising food prices, and close to 30 million additional persons will fall into poverty in the African continent alone. Higher food prices may also heighten inequality within countries. It is already worsening child malnutrition and aggravating the vulnerability of many children living in conditions of conflict, instability, and drought. Millions of poor households are now either skipping meals or switching to cheaper and lower-quality cereals.

The impact of rising food prices on a country's balance of payments varies with its dependence on imported food and level of reserves. Rising food prices alone may not significantly impact a country's balance of payments, but combined with escalating fuel prices the impact can be deleterious, estimates the IMF. Furthermore, several of the countries that

are more exposed to international food-price shocks are also constrained in their fiscal capacity to cope.

PROPOSALS FOR AN INTEGRATED GLOBAL RESPONSE TO THE FOOD CRISIS

The very nature of hunger justifies an urgent response, but the need for speed goes beyond supporting humanitarian assistance and safety nets to helping countries avoid short-run policies that shift the burden to neighboring countries or to subsequent years. The World Bank's recommended actions include a New Deal for Global Food Policy, articulated around core actions in the following areas:

- Supporting immediate needs and softening the worst effects among vulnerable populations
- Providing financial and technical support to stimulate an agricultural supply response
- Launching a new commitment to agriculture in developing countries
- Committing to re-examine policies towards bio-fuels in the G8 countries
- Taking leadership at the highest political level to coordinate across major exporters and importing countries and break the price spiral, and
- Fostering a well-functioning international trading system that avoids the recurrence of such types of crises in the future

IDA'S CONTRIBUTION TO THE RESPONSE

IDA is well-positioned to help countries identify an appropriate mix of short- and medium-term policies needed to protect vulnerable groups, while providing leader-

ship on the global policy agenda addressing the structural increases in food prices. The Bank and its development partners have widely endorsed the call for a New Deal for Global Food Policy. Now, the Bank is working in close collaboration with the UN agencies on a common strategy to confront the food crisis. This approach provides a platform for countries and donors to build their programs along a country-based development model in creating country-owned and country-specific responses. The Bank's response is articulated around four main pillars:

(i) Policy advice

As of August 2008, the Bank is engaged in policy dialogue with more than 40 countries to help them address the food crisis, the majority of which are IDA countries. The instruments used include: rapid country diagnostics, high-level dialogue and public communications, as well as in-depth analytical work. Bank staff are also assessing the food security and trade implications of the crisis at the regional level. Examples of recent Bank support to IDA client countries related to rising food prices include:

- In Kazakhstan, the World Bank held a workshop on food prices with the Prime Minister and the cabinet to assess better options for managing inflationary pressures and the agricultural response. In Afghanistan, a quick note has been delivered on short-run actions to support vulnerable groups, and long-run options to ensure adequate supply. In Indonesia and the Philippines, the Bank is advising on options to expand cash transfers to the needy. In Haiti, the Bank provided support to the Government's evaluation of a temporary price subsidy for rice. In Mozambique, the Bank is working

with an inter-ministerial team to identify best practices in subsidies and other interventions to cope with higher food prices.

- The Bank is equally active on a regional level among IDA countries. In Nicaragua, a team briefed a summit of 14 Latin American and Caribbean nations' leaders on food price increases and regional impacts. In East Asia, the Bank is providing inputs to the regional dialogue, supporting regional initiatives in agricultural research and facilitating trade coordination.

(ii) Expedited financial support

In May 2008, the World Bank Board of Directors approved a Global Food Crisis Response Program (GFRP)—a rapid financing facility that is providing technical advice and access to up to \$1.2 billion of financial support (including \$200 million of grant financing from the World Bank's own income) to countries severely affected by the food crisis. The aim of the GFRP is to minimize the threat posed by high food prices and sharply rising agricultural costs to the livelihoods of poor residents in developing countries. Interventions will complement the short-term emergency responses of WFP and other donors. The program is an umbrella facility offering access to IDA/IBRD grants, credits, and loans for both investment and program instruments. In addition to country funding, the GFRP offers financial support for regional initiatives that are eligible for IDA financing. All Bank member countries adversely affected by the food crisis are eligible to participate. However, access to the US\$200 million of grant funding, capped at \$10 million for each country, is targeted to the most fragile, poor, and heavily-impacted countries and territories with little access to immediate funding.

Grants were approved by the end of May 2008 for Djibouti (\$5 million), Haiti (\$10 million), and Liberia (\$10 million). In June, grants were approved for Tajikistan (\$9 million) and Yemen (\$10 million), and an IDA credit was approved for the Kyrgyz republic (\$10 million) to scale up a small but targeted social assistance program and address mounting nutritional deficiencies. By the end of August, a further \$111 million of grants and \$10 million in IDA credit are in the pipeline for another 16 IDA countries. These countries have been identified as high priority based on rapid needs assessments undertaken in the field with the WFP, FAO, and IFAD. These projects will support safety nets for the most vulnerable, micronutrients to fight malnutrition, rapid provision of seeds and fertilizer to small farmers, and will compensate for sharp reductions in fiscal revenues in some countries. For example, in Djibouti the Bank is supporting the government in tax exemption on basic food items, expansion of food aid, social assistance, and related programs.¹

- **Creation of a Multi Donor Trust Fund.** In order to facilitate the involvement of a broad range of development partners in supporting country efforts to address the crisis, a Multi Donor Trust Fund (MDTF) has been created. The MDTF will be used to support all the components of the GFRP including working with partners and recipients to provide seeds and fertilizers for the upcoming harvests—particularly for small farmers—as well as facilitating comprehensive and country-specific policy and operational coordination among development partners.

1. "Djibouti—Food Crisis Response Development Policy Grant", Program Document, May 22, 2008, Pages 15 and 36.

- **Acceleration of relevant projects in pipeline.** There are numerous cases where projects are being accelerated to support country responses. For example, policy reforms, irrigation, and agricultural research are being advanced in the Philippines.
- **Support for WFP programs.** In Tajikistan and Liberia, some of the Bank's financial support will likely be channeled through WFP programs at the request of the recipient governments. In Tajikistan, also at the request of the government, some funding will be provided through FAO/WFP programs for seed purchases.

(iii) Financial risk management products

The Bank is also working to help countries gain access to and knowledge about financial risk management products. In June of this year, the Bank's Board approved a proposal for Treasury to intermediate index-based weather derivatives for IBRD and IDA countries. Following a severe weather event, clients would receive a payout from the Bank with the value based on an index. Malawi is the first of several countries likely to use the World Bank as an intermediary to access the weather derivative market. The Bank is also helping countries structure commodity hedging strategies. In Southern Africa this means working with large trading companies and banks who can offer customized contracts to help mitigate the risk of maize price and supply volatility. Such approaches can be used as a

basis for building "virtual" strategic reserves, which are more efficient and market-friendly than increasing physical reserves. They may also be useful for reducing the financial risk and costs of food-aid programs.

(iv) Research to address critical knowledge gaps

Designing appropriate policies to respond to the food crisis requires a solid foundation of empirical knowledge at the global and country level. In some areas this knowledge exists, and can be drawn upon. In others, there are large knowledge gaps that need to be urgently addressed. In collaboration with other agencies and institutions, IDA is involved in undertaking a comprehensive analytical program in six key areas across the World Bank:

- Global food markets and global food price developments (drivers, projections)
- Poverty, distributional and nutritional impacts of food price increases
- Fiscal and macroeconomic implications and responses
- Trade responses and impacts at country and global level
- Facilitating an agricultural supply response, and
- Using safety nets to dampen the social impact of the crisis

July 2008.

<http://www.worldbank.org/ida>