



The World Bank

Robert B. Zoellick
President

July 1, 2008

His Excellency Yasuo Fukuda
Prime Minister
Office of the Prime Minister
Tokyo
JAPAN

Dear Mr. Prime Minister,

Thank you for the invitation to join the Group of Eight summit meetings in Japan. As you wrote in April, soaring food prices endanger the world's most vulnerable people with malnutrition and hunger. Since then, the situation has only become worse. We are entering a danger zone. For the first time since 1973, the world is being hit by a combination of record oil and food prices, threatening to drive over 100 million people into extreme poverty and reverse the gains made in overcoming poverty over the last seven years. The impact on our attainment of the Millennium Development Goals may be severe. The G8 made a commitment at the Gleneagles Summit in 2005 to boost overall development aid, to Africa in particular, by 2010. Never has this aid been more needed than now, when Africa accounts for two-thirds of the countries most under stress.

This increase in food and energy prices is leading to a substantial redistribution of incomes from consumers to producers, both between countries and within them, with the most vulnerable hit especially hard. For 41 countries, the combined impact of high food, fuel, and other commodity prices since January 2007 represents a negative shock to GDP of between 3 and 10 percent. These numbers translate into broken lives and stunted potential. For the most vulnerable, especially poor children, they mean malnutrition, reduced resistance to disease, and too often death.

Record oil prices and high and rising food costs threaten a growing number of countries with rising poverty and social instability. Already we have seen food riots in over 30 countries, and unrest over high fuel prices is spreading. The urban poor are especially affected by the double hit of food and fuel. To offer just one sharp example, in January, Liberia, a country struggling to recover from decades of horror, faced a 25 percent increase in food prices; that pushed 200,000 more people into poverty, which now encompasses 70 percent of the population.

What we are witnessing is not a natural disaster—a silent tsunami or a perfect storm: It is a man-made catastrophe, and as such must be fixed by people. I urge the Group of Eight countries, in concert with major oil producers, to act now to address this crisis. This is a test of the global system to help the most vulnerable, and it cannot afford to fail.

The World Bank Group has worked with WFP, FAO, IFAD, and the IMF to do on-the-ground needs assessments in some 50 countries. Here is what we learned.

First, for both the fuel and food crises, our efforts must focus on the immediate needs of the most vulnerable. This means safety net support, school feeding, mother to child nutrition, food for work, and conditional cash transfer programs, which are all efficient ways to get food and cash quickly to the most needy. We must also boost support for food assistance provided by the World Food Program. The WFP usually needs about \$3 billion a year in voluntary contributions. This year, it could be between \$5 and \$6 billion, and it is likely the WFP will need a similar sum next year. The money for the WFP should not be earmarked or tied, as this reduces its flexibility in this crisis.

In May, the World Bank created a \$1.2 billion rapid financing facility, which included a special contribution of \$200 million for grants, to offer prompt assistance to the most vulnerable countries. We already have provided funds for 12 countries, but currently have almost \$400 million of additional new requests from 31 countries. These calls for help outstrip our available grant resources. The rapid financing facility includes, however, a multi-donor trust fund that is up-and-running, ready to be of immediate help. Donors should use this as a vehicle to provide help fast. This Vulnerability Fund can protect the poorest against soaring food and energy costs, while we work to boost medium- and long-term production. Overall, we estimate that short-term financing requirements for safety nets and agriculture (mainly assistance for seed and fertilizers), in 50 countries that we have assessed, is \$3.5 billion. In addition, the WFP and IMF assessments amount to approximately \$6.5 billion, bringing total short-term needs to about \$10 billion. The international community needs to step up to this challenge.

When in Moscow two weeks ago, I raised this issue with the Russian Government and was encouraged by the constructive initial response.

A second pressing step is to get seed and fertilizers to small farmers, especially in Africa. These costs have shot up, undermining plantings, even though prices are high. For a number of countries—for example, in Southern and Western Africa—the planting season is from August to December. Others will need help for their next growing season. We have an opportunity now to boost yields in the short term. Our Vulnerability Fund is assisting this need, too.

A third step should be to ease export bans and restrictions that have contributed to higher world food prices. Some 26 net food exporting countries have maintained or introduced such measures. The World Bank is advising more than 40 countries on trade policy related to this crisis and has had some success in persuading several to relax their restrictions. But much more needs to be done. Today, even with new financial support, the WFP may not be able to get critical food supplies to Liberia for months because WFP must buy and ship over long distances.

At a minimum, the Group of Eight should work with the UN to call on governments around the world to ensure access to local purchases for the WFP and for humanitarian purposes. I hope the UN will then take up this call during its September meetings. These humanitarian purchases should be exempt from export restrictions and taxes. As we have discussed, in Japan's case, it could have a dramatic impact on the thinly traded rice market if it released some of its stocks for humanitarian purposes. Japan would directly help millions of poor people if it increased its rice donations.

While responding to the immediate needs of this crisis, we should also pursue measures to ensure that this man-made disaster never happens again. The Group of Eight should consider two policy measures that could improve the world's ability to cope with an ongoing food crisis. The first

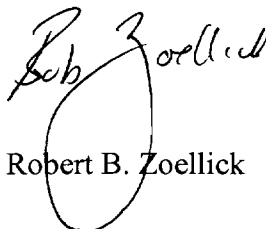
would be a UN assessment to guarantee a portion for WFP's funding. I think it is unrealistic to assume WFP will be able to raise \$5-6 billion a year from voluntary donations, and it is likely to need those levels of support. A second measure would be to study the value of having an internationally coordinated "virtual" humanitarian strategic reserve system for food emergencies. Absent such a step, the breakdown in international food markets is likely to prompt an ad-hoc building of national stocks, perhaps further boosting prices, and the international community may not be able to access food for those in critical need.

The World Bank has carried out considerable research on the food and fuel crisis and will present recommendations, including the ones above, in a report at the G8. High food prices are a calamity for millions of poor people, but they also offer an opportunity to boost development by increasing agricultural production and productivity after years of under-investment. Involving the private sector, we have an opportunity to spur improvements along the entire value chain, from property rights, to irrigation, to roads, and to logistics with minimal wastage. The World Bank Group is expanding its financial support for food and agriculture from \$4 to \$6 billion in the coming year. We recommend a boost in the Consultative Group on International Agricultural Research (CGIAR), now funded at about \$500 million per year, so the world can develop new drought- and flood-resistant seed varieties, and input combinations to produce higher yields. Given the need to adapt to climate change, the research assumes even more importance.

The World Bank Group also can assist poor countries to manage risks through the use of drought derivatives and crop insurance. In addition, we advise the United States and the EU to reduce mandates, subsidies, and tariffs on biofuels produced from grains and from oilseeds, at least at higher price levels, and invest in second generation cellulosic biofuels. Finally, the leading countries in the international trading system should use the WTO Ministerial meeting later this month to achieve a Doha deal to eliminate agricultural export subsidies, drastically cut distorting domestic subsidies, and significantly lower tariff and quota barriers as part of a package to create a much more open global system in the trade of food, goods, and services. Absent this breakthrough, calls for national food self-sufficiency are likely to lead to a further breakdown in international agricultural markets, with the poor least able to cope.

The international community is facing an unprecedented test in this new era of globalization: the question is whether we can act swiftly to help those most in need. For globalization to work successfully and achieve its promise, it must be inclusive and sustainable. This means acting now in the interests of the poor who are most affected by this double jeopardy of food and fuel crisis, and who are least able to help themselves.

Sincerely,



Robert B. Zoellick

cc: The Right Honorable Stephen Harper, Prime Minister of Canada
His Excellency Nicolas Sarkozy, President of France
Her Excellency Angela Merkel, Chancellor of Germany
His Excellency Silvio Berlusconi, Prime Minister of Italy
His Excellency Dmitry Medvedev, President of Russia
The Right Honourable Gordon Brown, Prime Minister of the United Kingdom
The Honorable George W. Bush, President of the United States
His Excellency Ban Ki-moon, Secretary-General of the United Nations