

Food Prices Vulnerability and Social Protection Responses



Increased vulnerability and a typology of responses

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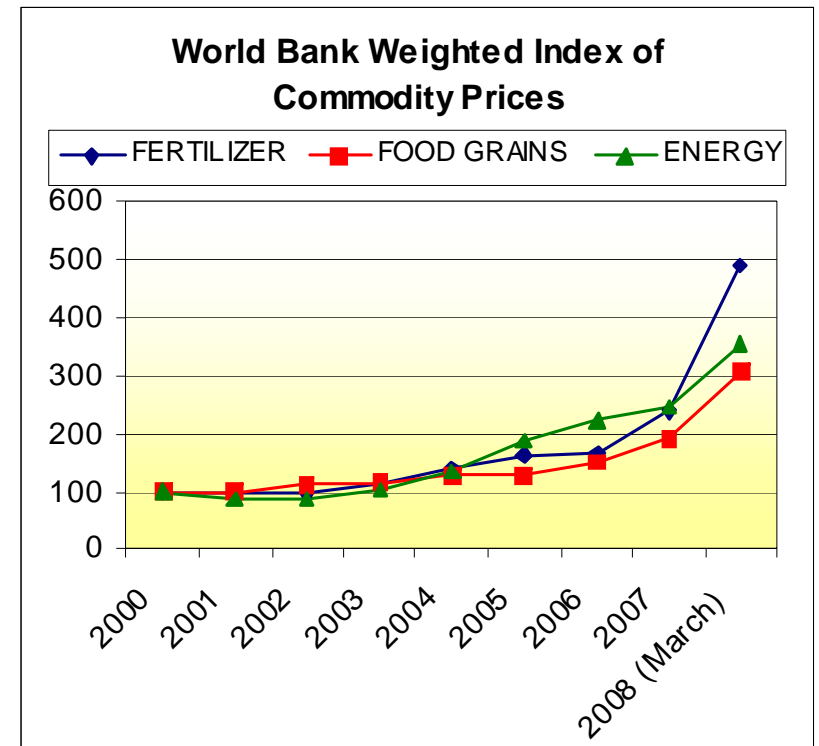
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Food price crisis: a shock transition...

- Crisis has:
 - Doubled world market food grain prices since Jan 2006
 - Increased market grain prices by 60% since Jan 2008
 - Increased consumer food price indices around 10% to 35%
 - Energy & fertiliser prices have also soared





..to a new long term equilibrium ?

- Prices are expected to remain high through 2015
- So policy responses need to reflect that reality

Table 1. Index of projected real food crop prices, 2004=100.

	2007	2008	2009	2010	2015
<i>Real Prices</i>					
Maize	141	179	186	176	155
Wheat	157	219	211	204	157
Rice	132	201	207	213	192
Soybeans	121	156	150	144	127
Soybean oil	138	170	162	153	119
Sugar	135	169	180	190	185

Source: DECPG.



Potential food price crisis impact on poverty and vulnerability is significant

- Crisis could:
 - Push 100 million into poverty worldwide, reverting recent poverty reduction trends
- But crisis could also:
 - Allow farmers' real incomes to rise, especially if they can increase output, which requires access to inputs



Smoothing adjustments and mitigating impacts

- Producers and consumers should react to higher prices adjusting output and consumption
- Policy responses should aim to *smooth adjustments*, not cancel out relative price changes or income effects
- In face of *sustained terms of trade shifts*, a generalised offset to permanent income effects is not economically recommendable or fiscally viable
- But *lagged responses in nominal wages* can lead to temporary hikes in poverty, which can be offset
- Policy should also aim to *mitigate permanent effects on the very poorest* (monetary and non monetary)
- Smoothing / mitigation are best achieved through *cash or in-kind transfers*, not subsidies or price controls (which undermine optimal adjustment)



Social Protection responses: key point of entry for the Bank

- Global Food Crisis Response Program (GFRP) highlights social protection actions to ensure food access and minimize the nutritional impact on the poor and vulnerable
- Governments need rapid, high profile responses
- Existing safety nets provide an option to act quickly and with minimum negative impacts on economic incentives by:
 - Allowing households to maintain their consumption, ensuring food access and minimizing the nutritional impact of the crisis
 - Give time to adjust consumption baskets and pattern of work or productive activities in the medium term, in response to changed relative prices



Risks to be addressed by SP responses

- Income shock effects affecting social equilibrium
 - Danger of unrest and discontent from reduced spending power across the board, especially in urban marginal areas
 - Food price and oil price rises reinforce each other
- Poverty effects
 - Danger of increased poverty and extreme poverty rates among net consumers of food – i.e. most rural and virtually all urban LAC families – especially in short term
- Long term human capital effects
 - **Nutrition effects:** Danger of reduced complementary feeding for children aged 6-24 months leading to increased chronic malnutrition. Big risk in countries with stunting rates above 25% (Guatemala, Honduras, Haiti, Bolivia, Ecuador, Peru)
 - **Education effects:** Danger of withdrawal of children from school due to income effect of price increases



Strategic approach of Social Protection responses

- Rapid in-country diagnostics
 - Use of rapid diagnostic tools developed in the SP anchor (ADePT) (which Emil will talk about)
 - Analysis of household and administrative datasets
 - Population affected / available programs / coverage / benefit incidence
 - Fiscal capacity (e.g.: is there an oil, gas or commodity bonanza or is the country taking a “double hit”? – Bolivia vs. Nicaragua)
 - Identify an affordable match of programs and problems
- Short term support to vulnerable populations
- Strengthening SP systems in the medium term
- “Do no harm” : avoiding ill-advised and unsustainable responses
 - Price controls, export controls, badly targeted subsidies



Scale and nature of impacts varies

Food Economies of four countries, 2003

	Bangladesh	Zambia	Honduras	Mexico
Cereal Imports/Total Consumption (%)	14.8	14.1	72.1	102
Food Budget share (%)	56.1	60.8	n.a.	26.6
Cereal budget share (%)	28.1	11.2	n.a.	5.8

- Mexico: high import dependence for cereals, but low weight in household consumption
- Bangladesh: low import dependence for cereals, but high weight in household consumption



Characteristics of programs to support

- Scale up existing, institutionally credible programs
 - Speed of response is critical in a crisis setting - scaling up existing programs with proven effectiveness is best option
 - Emergency responses have heightened governance and corruption risks – using established programs helps mitigate them
- Ensure significant impacts through interventions that are:
 - Well targeted
 - Appropriate in scale and scope
 - Benefits are large enough to make a difference (15% or more of consumption)
 - Avoid small “showcase” programs with large exclusion errors, which don’t help most of the target population.
 - Cost effective
 - Aim for low inclusion errors and low administrative costs.



Short term support for vulnerable populations: typology of options

- Social protection
 - Cash transfer and voucher programs
 - Increase benefits; expand coverage; avoid distorting programs
 - Targeted transfers (child benefits, family allowances, social pensions, disability pensions, etc)
 - Conditional cash transfers (linked to behavior)
 - Food stamps
 - In-kind food distribution
 - e.g. School feeding
 - Large scale, solid administration,
 - Incentive for school attendance; option of take home rations
 - Public works / workfare
 - Self targeting (in absence of good targeting system)
 - Caveat: targeted h/holds must have surplus labor
- Health, nutrition and education
 - Nutrition and primary health programs
 - Supplements, monitoring and counselling
 - Target pregnant women and children <24 months
 - Fee waivers for health and education (inverse CCT)



Possible exit strategies: two dimensions

- Overall program cost (*counter cyclical fiscal effort versus permanent entitlement program*):
 - Make programs and/or benefits explicitly one-off or temporary
 - Fix benefits in nominal terms > inflationary erosion of benefit levels
 - Reduced participation in self targeted programs as real incomes / employment rise
- Individual program participation (*appropriate support for individuals when needed, avoiding “dependency culture”*):
 - Permanent updating system for program eligibility
 - Periodical recertification of beneficiaries
 - Voluntary withdrawal from self targeted programs as individuals’ status changes



Chile & Ethiopia: two examples of responses using existing SP systems

- Chile
 - \$45 one-off payment made to 1.4 million households (aprox Q1 and Q2) paid to:
 - Chile Solidario beneficiaries (poorest 5%)
 - Family allowance beneficiaries (two types)
 - Made possible by existing coherent SP system covering vulnerable households
- Ethiopia
 - Taxes on cereals lifted (implies a fiscal cost)
 - Wage raised 33% on rural workfare program
 - Wheat subsidy in urban areas (capped @ \$75 per household/year)



Medium term response: Strengthening SP systems

- Development of well targeted, transfer-based SP system to provide a basis for more effective mitigation in future crises
- Improve scope and effectiveness of existing transfer programs
- Strengthen linkages between transfer programs and the health and education sectors
- Develop CCT model to address temporary vulnerabilities through variable benefits and coverage
- Strengthen communication on health and nutrition



Dimensioning fiscal costs

- Social Safety Net spending in most developing countries is around 1.5% to 2% of GDP
- Food crisis justifies a temporary increase
- Targeted transfer programs should aim for a significant boost to incomes of beneficiaries of about 20% to 25%
- In LAC, Q1 income varies between 1% and 3% of GDP - this implies spending between 0.25% and 0.75% of GDP on targeted transfer programs
- Increases in spending due to the food crisis would aim to scale up existing targeted transfer programs to this order of magnitude



An opportunity to improve the balance of policies?

- Crisis highlights inadequacies of policy frameworks in two senses
 - Missing good programs (for reaching vulnerable households quickly)
 - Prevalent weak programs (which soak up fiscal resources in favor of non-poor households)
- Generalised food subsidies are made more expensive by the crisis
 - They are increasingly fiscally unsustainable
 - A good time to argue for a strategy to replace them with well-designed, targeted transfers
- Regressive subsidies to fuel consumption (petrol gas, electricity)
 - These have become especially onerous – might this be an opportunity to revert them?



Thank you