



# Food security and the financial crisis



## IMPLICATIONS FOR LIVELIHOODS AND FOOD SECURITY

The global financial and economic crisis has pushed an additional 100 million people into hunger in 2009, bringing the overall number of undernourished people in the world to over one billion. The crisis has threatened livelihoods and access to food for those who have lost jobs and incomes including from remittances, as well as for other family members who must now provide support.

Developing countries have seen their export markets contract, and investments and other capital inflows, including development aid, are also at risk. In the agricultural sector prices for seeds and fertilizers (and other inputs) have more than doubled since 2006. Poor farmers with limited access to agricultural credit and markets could not take advantage of higher commodity prices, and found it difficult to deal with the situation without support.

This drastic development has aggravated global food insecurity and threatens the achievement of the Millennium Development Goals (MDGs), in particular the MDG1 target of reducing the prevalence of hunger by half by 2015. The proportion of hungry people in developing countries fell from 18 percent in 1995-97 to 16 percent in 2004-06, but has risen to 19 percent in 2009. This increase underlines the urgency

of tackling the root causes of hunger swiftly and effectively.

The current global economic slowdown – following the soaring food price episode of 2007–2008 – lies at the core of the sharp increase in world hunger. It has reduced incomes and employment opportunities of the poor and significantly lowered their access to food. With lower incomes, the poor are less able to acquire food, especially as prices are still high by historical standards. While international food prices have retreated from their mid-2008 peak levels, prices on local markets have not fallen to the same extent in many developing countries. In September 2009, domestic staple foods in developing countries cost on average 20 percent more in real terms than two years earlier.

Apart from humanitarian concerns, hunger directly threatens development. Faced with food insecurity, households try to maintain income by adopting negative coping strategies, such as selling of productive assets, becoming trapped in debt, withdrawing children from school, engaging in illegal activities and child labor, forced migration and, at worst, permanent destitution and fuelling of conflict. Furthermore, when food prices rise or incomes decline, people tend to reduce expenditures on basic health care and protein- and nutrient-rich foods such as meat, dairy products, or fruits and vegetables.

## CRISIS RESPONSE

It is widely recognized that significant additional investment in agriculture is required to eliminate poverty and achieve food security in developing countries. FAO estimates that gross investments averaging USD 209 billion per year are required in primary agriculture and downstream services (such as storage and marketing facilities) to meet food demand in 2050, i.e. an increase of almost 50 percent over current levels. Additional public investments are required in agricultural research, infrastructure and safety nets. Even if the aggregate amount needed is forthcoming, however, it will still be necessary to address in a timely and appropriate manner another very important issue that is often overlooked: the specific needs of smallholder farmers. The structural solution to combat hunger and poverty lies in increasing production and productivity in developing countries, particularly by small farmers.

Well established early warning systems and emergency funding mechanisms exist for humanitarian crises; the UN Central Emergency Response Fund (CERF) has proven effective in this regard. Humanitarian funding mechanisms, however, are not designed to avert and mitigate agricultural impacts of crises caused by economic shocks and do not provide sufficiently for “building back better”, while existing sources and mechanisms for investment in

agriculture are too slow to react to crises that undermine food security.

The lack of access of smallholders to appropriate resources and indispensable inputs to safeguard their productive capacity during a crisis is also due to the practice of earmarking overseas development assistance for sectoral interventions that often pay insufficient attention to the holistic needs of small holder farmers. Also, inadequate scale and late arrival of emergency funds make it difficult to control outbreaks of crop and livestock pests and diseases, even though the cost of control is usually much less than the economic losses caused by uncontrolled outbreaks.

To address those challenges, the international community has endorsed a comprehensive approach for improving food security covering all dimensions: availability, stability, access and utilization. Under this approach, public investment for productivity and resilience enhancement measures is a key component of crisis response. For example, investment in landslide protection, water-harvesting-based terracing and trenching of unstable slopes, participatory forestry and agro-

forestry, degraded land restoration, skills building and soil fertility enhancement are integral components of productivity safety nets and sustainable livelihood strategies in shock-prone countries with large portions of degraded lands.

What is needed are better coordinated and faster crisis response mechanisms that address all dimensions of food security.

## IFI INITIATIVES

The World Bank has been making emergency recovery loans since 1989, disbursing USD 11.4 billion, but processing them often took up to 12 months. In 2007 a new framework was introduced for providing fast track loans with a maximum processing time of 3 months. The 3-year Global Food Crisis Response Programme (GFRP) was set up within this framework in May 2008, with USD 2 billion. It provides fasttrack loans to address both immediate and developmental needs of countries hard hit by high food prices. Technical and financial assistance (USD 83 million), provided by the Global Facility for Disaster Reduction and Recovery to help disaster-prone countries decrease their vulnerability

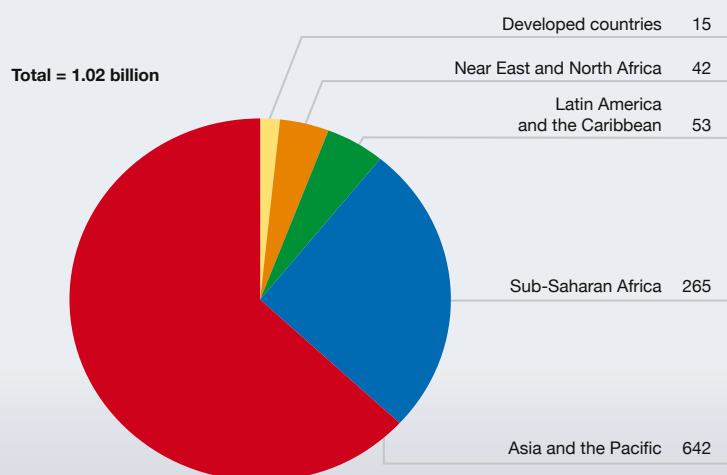
and adapt to climate change, also qualifies for the fasttrack procedure.

Created in 2008, the Catastrophe Risk Deferred Drawdown Option (CAT DDO) offers fast-tracked bridging loans to countries that suffer a natural disaster and declare a state of emergency, up to USD 500 million for each country. The Global Programme for Avian Influenza Control and Human Pandemic Preparedness and Response (GPAI), a fast-track loan programme of the World Bank of USD 1 billion, and the Avian and Human Influenza Facility (AHIF), a multidonor grant programme administered by the World Bank of USD 126 million, help client countries deal with epidemics caused by viruses in birds and livestock, and prepare for and respond to a possible human flu pandemic.

In April 2008, the International Fund for Agriculture Development (IFAD), made available up to USD 200 million from existing loans and grants to provide an immediate boost to agricultural production in the developing world in the face of high food prices and low food stocks. This provision was designed to be distinct from emergency relief, food aid or social safety nets, but to accompany such aid provided by other partners. Measures were taken by the Fund to fast track these allocations.

Other major IFIs have also been approving major financial allocations to address the immediate needs of countries affected by the food crisis such as the Inter-American Development Bank, which approved a credit line of USD 500 millions in September 2008, the African Development Bank (ADB) which committed USD 1 billion in May 2008, the Asian Development Bank, which allocated USD 500 million in July 2008 and the Islamic Development Bank (ISDB), which committed USD 1.5 billion over the next 5 years.

Figure 1: Undernourishment in 2009, by region (millions)



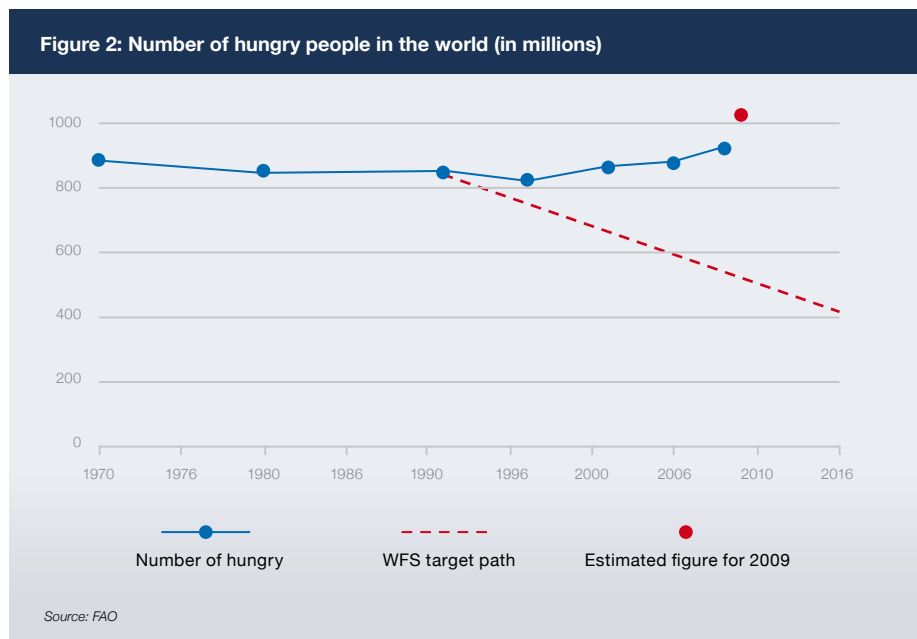
Source: FAO

## PRESERVING SMALLHOLDER PRODUCTIVITY

Commercial farmers in developed countries have the options of insuring their productive assets and their crops against theft, fire and weather-related losses, and of using commodity markets to hedge against price risks. Weather insurance and commodity exchanges are two mechanisms that are being piloted in a number of developing countries, although it is still soon to judge their efficacy.

The UN Central Emergency Response Fund (CERF) is a tool created by the United Nations to preposition funding for humanitarian action. It was established in 2005 to upgrade the prior Central Emergency Revolving Fund by including a grant element based on voluntary contributions by governments and private sector organizations. The grant component has two windows, one for rapid response and one for underfunded emergencies. The grant component aims at mobilizing USD 450 million on a yearly basis, of which two thirds for the rapid response window and one third for the “forgotten emergencies”. The United Nations and its specialized agencies, funds and programmes as well as the International Organization for Migration (IOM) are eligible for both grants and loans.

In December 2007, FAO launched the Initiative on Soaring Food Prices (ISFP) in an effort to help the most affected countries deal with the situation. ISFP's main objective is to facilitate access of farmers to inputs (seeds, fertilizers, animal feed, etc.) primarily in low-income food-deficit countries. Through a consultative process at country level, involving needs assessment missions, the ISFP identified short-term interventions to address price rises and economic cutbacks, and has mobilized close to USD 400 million in response funding including from its own resources and trust fund voluntary



contributions (e.g. the EU Food Facility).

The World Food Programme (WFP) scaled up its activities in 2008 to meet the urgent requests of nations hit by soaring food prices, food scarcity and food riots, reaching over 100 million people, and mobilizing over USD 5.1 billion. Activities included expansion of school feeding programmes, the provision of supplementary rations of nutritious food, expansion of safety net programmes to protect livelihoods, provision of food assistance in urban and peri-urban areas, expanded voucher programmes and cash transfers to increase market access to food and provision of targeted food rations to vulnerable groups. In addition, WFP is also increasingly purchasing locally produced food for its operations and school feeding programmes (the Purchase for Progress initiative).

The High Level Task Force on the Global Food Security Crisis (HLTF) was established in April 2008 by the UN Secretary General Ban Ki-Moon in response to the food price crisis. It is co-chaired by the Director-General of FAO and is composed of the heads of UN agencies, funds and programmes

and Bretton Woods institutions. The primary aim of the HLTF is to promote a comprehensive and unified response to the challenge of achieving global food security. The HLTF prepared the Comprehensive Framework for Action (CFA) to focus attention on meeting the immediate needs of vulnerable populations while simultaneously promoting support for building resilience and contributing to global food and nutrition security in the longer term.

## EUROPEAN UNION FOOD FACILITY

In 2008 the European Union (EU) established an EUR 1 billion Food Facility whose objective is to finance measures aimed at supporting a rapid and direct response to volatile food prices in developing countries, addressing primarily the period between emergency aid and medium- to long-term development cooperation. The Facility focuses on programmes that will have a quick, but lasting impact on food security. Through an innovative coordinating mechanism, UN agencies and the World Bank cooperated to assess country needs and identify areas of comparative organizational strength. From 2008 until 2011, activities under the Facility will centre on improving farmers'

access to quality inputs and services, boosting production, and providing safety nets to vulnerable groups.

### RENEWING GLOBAL GOVERNANCE

Recently, there has been growing interest in redesigning global governance of world food security and calls have been made for a Global Partnership for Agriculture, Food Security and Nutrition. The renewed global governance system should build on and reform existing institutions to better address the long term, structural factors that cause hunger and malnutrition, as well as to respond more effectively to crises affecting agriculture and food security. The idea is to realign and improve coordination among existing institutions and mechanisms so they can meet current and emerging challenges in a more effective way.

In this perspective, members of the Committee on World Food Security (CFS) agreed at their 35<sup>th</sup> Session (Rome, 14-17 October 2009) on a wide-ranging reform of the Committee, aiming to make CFS the foremost inclusive international and intergovernmental platform dealing with food security and nutrition and enable it to be the basis for the Global Partnership.

The CFS reforms are designed to focus the Committee's vision and role to better serve as a forum for policy debate and convergence, and to facilitate appropriate action on food security and nutrition

among governments, representatives of UN agencies and other inter-governmental organizations, and civil society. This includes supporting national anti-hunger plans and initiatives; ensuring that all relevant voices are heard; and strengthening linkages at regional, national and local levels. The CFS will also be supported by a High Level Panel of Experts (HLPE) that will serve as a multi-disciplinary scientific advisory body to provide scientific evidence and state of the art knowledge on which to base decisions.

### POLICY CONSIDERATIONS

- ▶ What have we learned from the characteristics of the current financial and economic crisis about risks to food security that developing countries may face in the medium-term?
- ▶ What have been the most serious deficiencies in the existing response mechanisms?
- ▶ What adjustments to existing response mechanisms would allow more timely and adequate response?
- ▶ What is or could be the most appropriate mechanism to streamline and coordinate reaction to aspects of future food security crises that threaten to reduce smallholder productivity?

#### For further information



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