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HIGH FOOD PRICES AND FOOD SECURITY – THREATS, OPPORTUNITIES AND BUDGETARY IMPLICATIONS FOR SUSTAINABLE AGRICULTURE

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I. INTRODUCTION

1. The dramatic rise in food prices during 2007/2008 and the ongoing global downturn have lead to worsening poverty and food insecurity levels in many low income countries. In Africa, where over 50 percent of household income is spent on food, the situation has put many households at the risk of starvation. This is compounded by the reduction in remittances as a result of the global recession[1]. Recent declines in international market prices have been poorly transmitted to local African markets, where prices still remain high.

2. The food security situation in Africa remains worrying. FAO's latest assessments of countries facing food emergencies reveals that of the 29 countries worldwide, 19 are in Africa[2]. Rising food costs pose a direct threat to Africa's poor, jeopardizing the achievement of the Millennium Development goals (MDGs)/World Food Summit targets to reduce by half the number of people suffering from hunger and malnutrition by 2015.

3. The major causes behind increasing food prices are associated with the underlining structural deficiencies within Africa's agriculture sector including poor productive capacity and weak market development. In addition trade liberalization and import dependence heightened linkages between African commodities and international markets leading to a boom in domestic food prices. Rising food insecurity linked to inadequate access to food is heightened by growing pressure on national food stocks and dependence on food imports.

4. Government responses have ranged from price controls, export bans and interventions to support producers through input subsidies and training. The cost of the food crisis has been considerable, placing pressure on available government expenditure. Increasing official development assistance (ODA) from international donors to regional rural development has been welcomed as evidence of a renewed and heightened policy shift towards agricultural development in Africa. Recognition of the need to scale up investments in agriculture, championed by the Comprehensive Africa Agricultural Development Programme (CAADP)[3], has gathered momentum as the renewed commitment towards agricultural reform strengthens the case for sustainable agricultural programmes that links integral frameworks of hunger and poverty reduction with pro poor livelihoods agendas.

5. Since the 2007/8 global food and fuel crisis a rich body of literature, both within FAO and elsewhere, has emerged highlighting the nature and causes, consequences, coping strategies and frameworks for action. Within FAO, the Initiative on Soaring Food Prices (ISFP) was launched (in 2007) as the Organization's response mechanism and to coordinate immediate actions[4]. The programme adopts FAO's twin-track approach in the context of hunger reduction, combining the promotion of quick-response agricultural growth, led by small farmers, with targeted programmes to ensure the most vulnerable and food-insecure consumers have access to adequate supplies. This document is a synthesis of the key issues relating to the global food and fuel crisis and how it has affected African countries and options to mitigate the impact and revitalize Africa's agriculture sector.

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[1] FAO, "*The State of Food Insecurity in the World*, 2009".

[2] FAO, "Crop Prospects and Food Situation", No.1. February 2010: http://www.fao.org/docrep/012/ak343e/ak343e00.pdf

[3] www.caadp.net

[4] http://www.fao.org/isfp/isfp-home/en/

II. THE FOOD CRISIS: GLOBAL TRENDS AND DRIVERS

6. The dramatic rise in food and fuel prices and overall import bills for the poorest countries during 2007/08, coupled with diminishing food stocks, poses a threat to global food security and creates a host of humanitarian, human rights, socio-economic, environmental, developmental, political and security-related challenges[5]. Food prices have increased since 2001, and particularly steeply since 2006. The Food and Agriculture Organization (FAO) index of food prices rose by 9 percent in 2006, 27 percent in 2007 and that increase persisted and accelerated until the first half of 2008. Since then, prices have fallen steadily but remain above their long-term trend levels.

7. By 2008, the FAO food price index still averaged 24 percent above 2007 and 57 percent above 2006. Figure 1 depicts the FAO food price index and the global food consumption price index. The global food consumption price index tracks changes in the cost of the global food basket as portrayed by the latest FAO world food balance sheet. Representative international prices for each of the commodities or commodity groups appearing in the balance sheet are weighted by their contribution to total calorific intake. The index fell to a 25 month low in September 2009, before gaining ground to almost 180 basis points in November. This implies that the cost of the typical food basket is now some 80 percent more than what it was in 2002/04. A slight recovery in cereal prices recently which hitherto had been steadily been falling, combined with a sharp rise in dairy product prices, has led to the index being more aligned to movements in the export weighted FAO Food Price Index

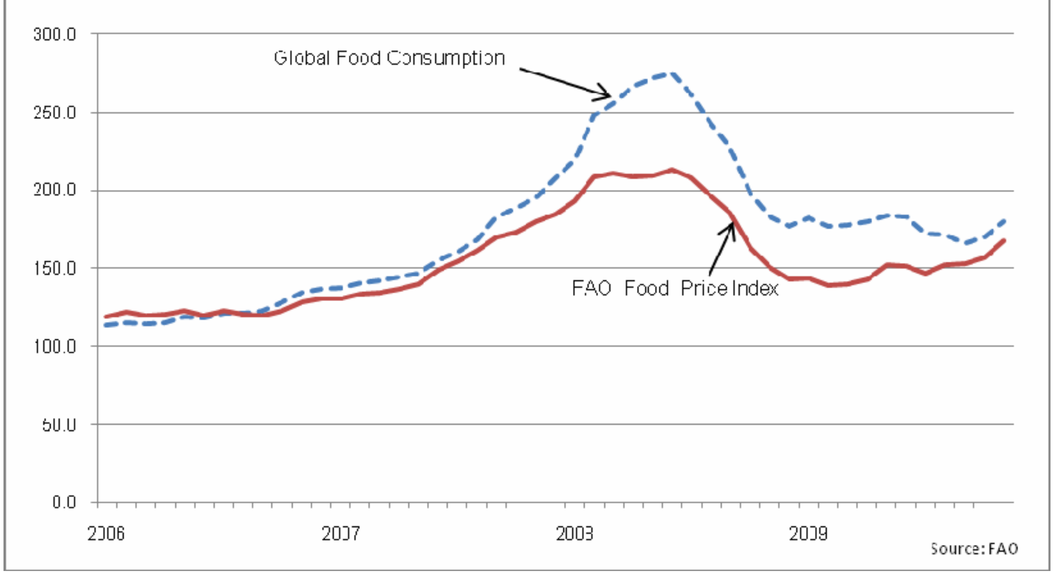


Figure 1: The FAO Global Food Consumption Price Index and the FAO Food Price Index

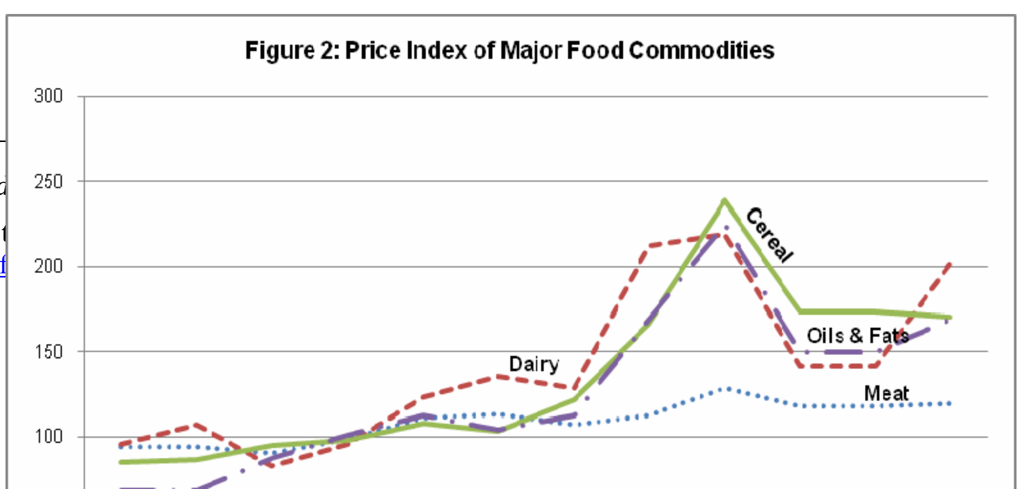
[5] See "*Comprehensive Framework for Action, July 2008*". High-Level Task Force on the Global Food Security Crisis: http://www.un.org/issues/food/taskforce/

8. The spectacular rise in global food and fuel prices is not the result of any specific climatic shock or other emergency, but rather the cumulative effects of long-term trends and more recent factors, including supply and demand dynamics and responses which have caused further price increases and higher price volatility. During the past two decades, demand for food has been increasing steadily with the growth in the world's population, improvements in incomes and the diversification of diets. Until 2000, food prices were declining, with record harvests and the draw-down of food stocks. Simultaneously, public and private investment in agriculture had been declining and led to stagnant or declining crop yield growth in most African countries. Rapid urbanization has led to the conversion of much farmland to non-agricultural uses. In addition, low prices encouraged farmers to shift to alternative food and non-food crops, or to transfer land to non-agricultural uses. Long-term unstable land and resource use has also caused land degradation, soil erosion, nutrient depletion, water scarcity, desertification, and the disruption of biological cycles.

9. Beginning in 2004, prices for most grains began to rise gradually and production increased, but more slowly than demand, resulting in continued depletion of stocks. In 2005, extreme weather incidents in major food-producing countries, possibly related to more general climatic shifts, caused world cereal production to fall by 2.1 percent in 2006. At the same time external factors began to accelerate the steady adjustment of world food prices upwards in response to broader supply and demand dynamics[6].

10. In 2007, rapid increases in oil prices not only increased fertilizer and other food production costs, but also provided a climate favorable to an expansion of biofuel crop production, largely from coarse grains and oil crops. As international food prices peaked, countries sought ways to insulate themselves from potential food shortages and price shocks. Several food-exporting countries imposed export restrictions, while some key importers were purchasing grains at any price to maintain domestic food supplies. This not only resulted in some panic and volatility in international grain markets, but attracted speculative investments in grains futures and options markets, which may have contributed to drive prices even higher.

11. While food commodity prices now appear to be stabilizing, prices are expected to remain high over the medium to long term (Figure 2)[7]. Anticipated good harvests in key grain-producing countries, and indications that some major producers will relax export restrictions, have begun to calm grain markets.



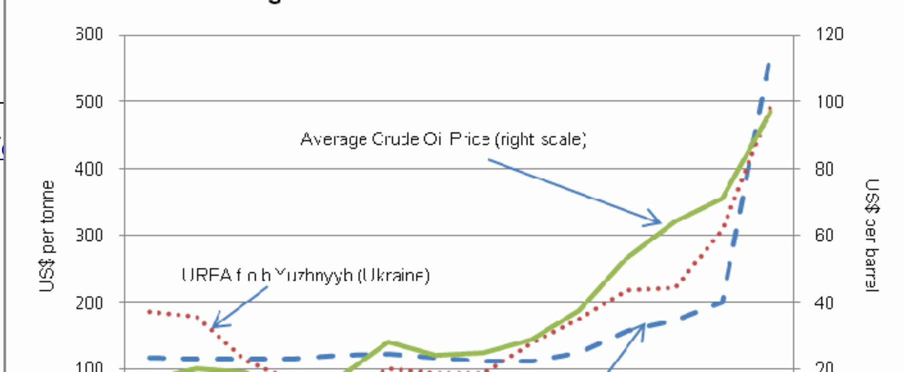
[6] FAO, *Food*

[7] Details on t
http://www.f

III. THE FOOD CRISIS IN AFRICA AND POLICY RESPONSES

12. In Africa, sudden food and fuel price increases are nothing new. However, a key difference between the 2007/08 episode and others earlier is that price increases affected all other commodities, inputs and services leading to civil disorder in a number of African countries. Figure 3 depicts the evolution of fuel and fertilizer prices. In response, many African countries enacted a combination of different measures to counter rising prices. In April 2008, African finance ministers warned that the rise in international food prices was a serious threat to the continent's growth, peace and security[8]. Around the same period currency depreciation in SSA has been a key factor to price increases, as a result of the global financial downturn. In what follows, the impact of the food crises is examined from its effect on the key staple grains consumed in Africa (rice, wheat and maize).

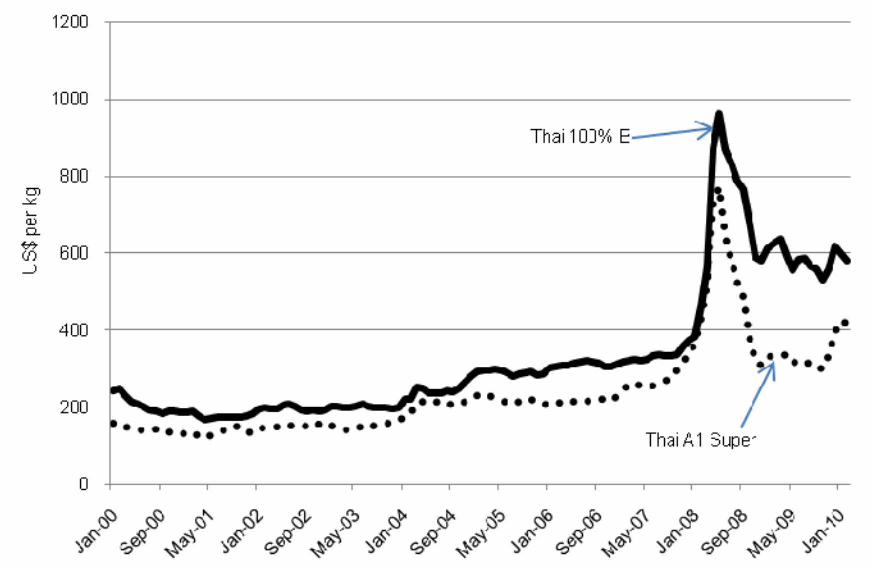
Figure 3: Crude Oil and Fertilizer Prices



[8] http://

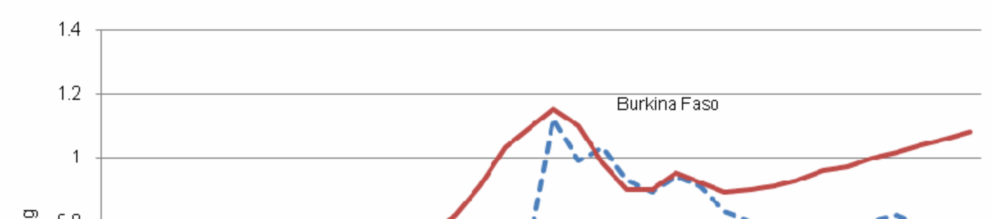
13. Although international rice prices rose to unprecedented levels in May 2008 it has eased slightly in recent months. Nonetheless, prices are still relative high for poor African households. For instance, by August 2008, Thailand white (first grade) rice was 135 percent above its level a year earlier while the price of broken (second grade) was 95 percent higher (Figure 4).

Figure 4: International Rice Prices



14. In West Africa, the price of imported rice rose by 43 percent in Mali, 50 percent in Niger and 65 percent in Burkina Faso in August 2008 compared to a year earlier. Senegal experienced a dramatic price surge for rice at about 112 percent (Figure 5). Unlike some West African countries, where cereal imports accounted for less than 20 percent of the total consumption, Senegal depends heavily on cereal imports, accounting for 53 percent of its domestic requirement.

Figure 5: Domestic Rice Prices in Africa



15. Like, rice, international wheat price peaked in June 2008, but have eased up more recently. However, they are still 24 percent (US No.2, hard red winter wheat f.o.b. Gulf) and 12 percent (Argentina wheat price; Up river f.o.b.) higher in August 2008 compared to a year earlier (Figure 6). However, domestic prices of wheat in Africa (e.g. Eritrea, Ethiopia and Sudan) increased more rapidly (60 to 115 percent) than the international market prices.

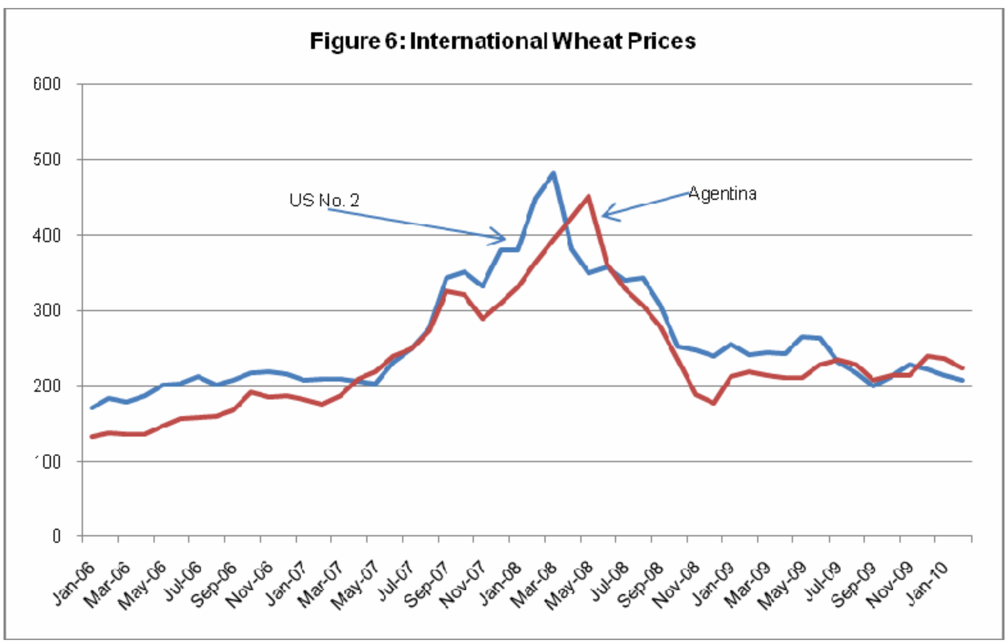
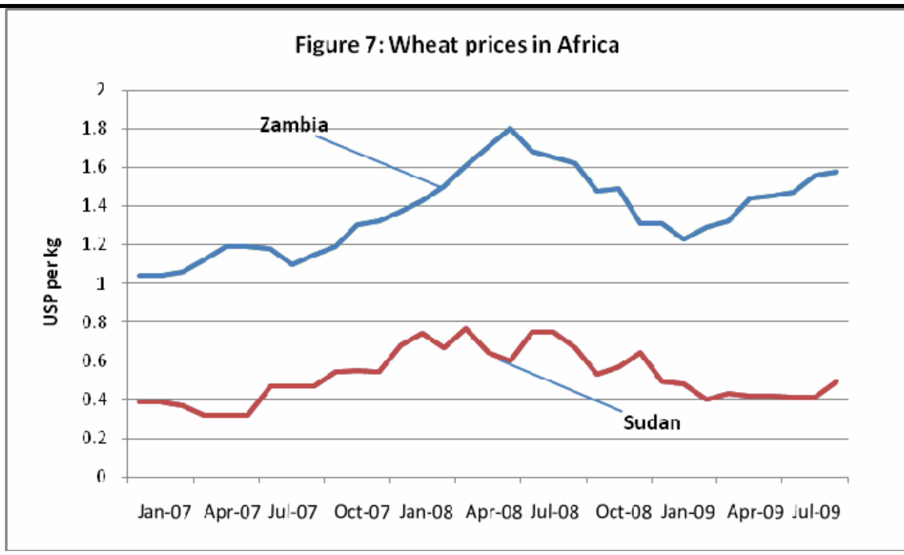
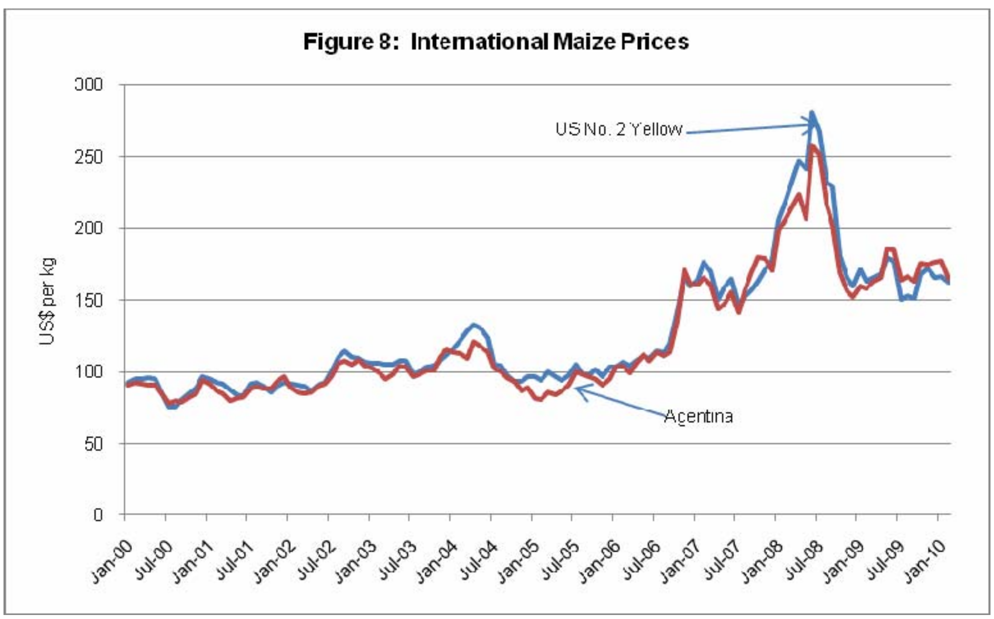


Figure 6: International Wheat Prices

16. In Eritrea, where wheat is a key staple grain and wholly imported, prices more than doubled by August 2008. It is worth noting the three countries cited above have been severely affected by long term natural disasters and/or conflicts. Furthermore, a decline in the amount of food aid distribution (as a result of the global shortage of food) has also contributed to the price increase in countries such as Ethiopia.



17. International maize prices have also followed a pattern similar to wheat, although the rates at which prices increased were higher for maize than wheat: US maize increased by 53 percent while Argentina maize increased by 39 percent in August 2008. Domestic maize prices in Ethiopia, Kenya, Malawi and Mozambique increased at a faster rate than world maize prices, varying from 59 percent to 157 percent. These countries have limited resources to import and increase domestic supply (Figure 8).



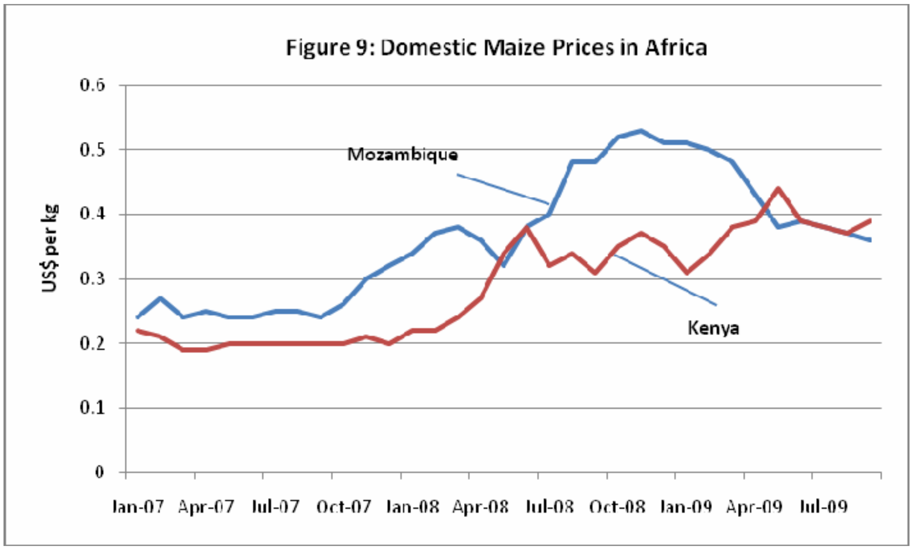


Figure 9: Domestic Maize Prices in Africa

18. As a consequence, Africa's food import bills (Figure 10) rose from US$ 12 billion in 2006 to US$14 billion in 2007 and peaked at US$27 billion in 2008 (Figure 10). This is the largest increase in food import bills experienced by Africa over the last two decades. As a consequence of the combined effect of the food and fuel crisis, Africa food import bill rose by 83 percent between 2007-08 putting large segments of the population on the brink of starvation (Figure 10).

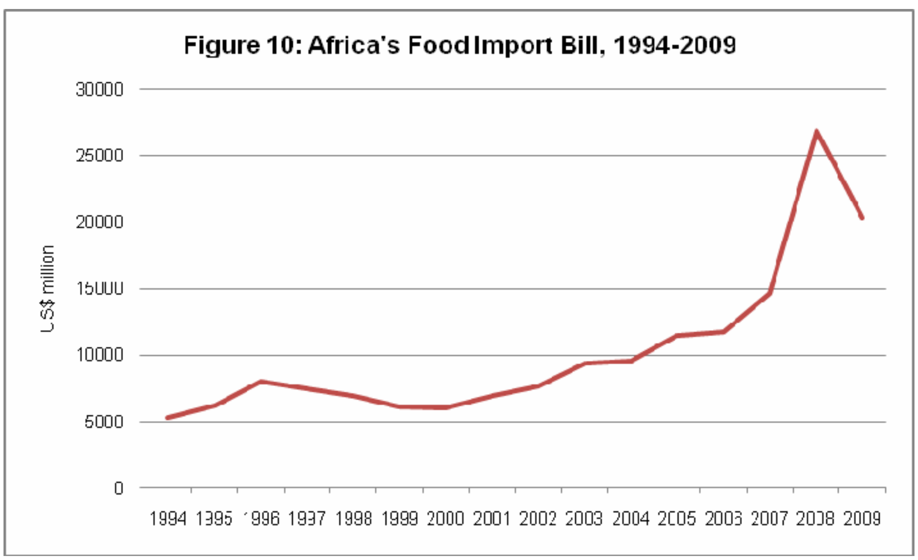


Figure 10: Africa's Food Import Bill, 1994-2009

Policy Responses

19. Faced with rising international food and fuel prices since the late 2006, many countries in Africa and elsewhere adopted policy measures to cushion the impact of high prices on the poor and vulnerable groups. The summary matrix below (Table 1) and the list appended as Annex 1 show the type of policy responses undertaken by African governments between 2006-2009. The policy responses varies from

country to country but in general they can be grouped into three broad categories specifically targeting consumers, producer and marketing and trade environment.

FAO Initiative on Soaring Food Prices in Africa

20. As indicated earlier, in December 2007, FAO launched the Initiative on Soaring Food Prices (ISFP) to assist member countries to implement urgent measures to boost food supply responses and to improve access to food in the most affected countries through increased policy support. The countries themselves and their Governments are the core project owners, responsible for enforcing decisions and adopting strategies using a comprehensive and sustainable approach. The IFSP, works with national governments to provide targeted support to small holder farmers and rural households affected by rising food prices. 32 African countries are part of the initiative involving large scale distribution of seeds, fertilizer and animal feed. FAO also partners with the EU Food Facility, operational in selected African countries to improve farmers' access to quality inputs and services

Table 1: Policy Responses in Africa

	Consumer oriented							Producer oriented		Trade oriented		
	Tax	Social			Market			Production support	Market management	Import	Export	
	Taxes (direct & indirect)	Food assistance	Food subsidies	Safety net & other	Price controls	Release stocks	Food procurement & other	Producer credit & other	Minimum producer prices & other	Import tariffs & other	Quantitative export controls	Export price control & tax measures
Algeria			√				√	√	√	√		
Angola								√				
Benin					√		√	√		√		
Burkina Faso	√	√						√		√		
Cameroon							√			√	√	
Cape Verde		√			√					√		
Central African Republic									√			
Congo	√											
Democratic Republic of the Congo										√		
Djibouti	√				√			√				
Egypt		√	√	√	√						√	
Eritrea			√									
Ethiopia	√		√								√	
Gambia	√									√		
Ghana								√		√		
Guinea										√	√	
Kenya	√							√		√	√	
Liberia		√						√		√		
Libyan Arab Jamahiriya				√	√		√	√		√		
Madagascar		√						√		√		
Malawi								√	√		√	
Mauritania							√	√		√		
Morocco		√	√							√		
Mozambique										√		
Namibia	√											
Niger							√	√		√		
Nigeria		√					√	√	√	√		
Rwanda					√		√			√		
Senegal	√	√	√		√		√	√	√	√		
Seychelles								√				
Sierra Leone										√		
South Africa		√										
Sudan	√				√							
Togo					√							
Tunisia								√	√			
Uganda	√											
United Republic of Tanzania	√		√					√		√	√	
Zambia			√					√	√		√	
Zimbabwe		√								√		
Total	**11**	**10**	**8**	**2**	**9**	**0**	**9**	**19**	**7**	**23**	**8**	**0**

IV. COST AND FINANCIAL SUPPORT FOR SUSTAINABLE AGRICULTURE

Budgetary Implications

21. The policy responses to high food prices in Africa have significant implications for government budgetary outlays. Responses to mitigate the impact of the food security crisis have required increased public expenditure with adverse implications for financing the already existing poor basic services. In particular, countries have been faced with the challenge of financing subsidies, social protection and food as well as fuel imports. Several countries had to draw down their foreign exchange reserves or resort to borrowing, risking reallocation of resources, higher inflationary pressures and balance of payment difficulties.

22. The total expenditure on food subsidies have been projected to exceed 1 percent of GDP in Burundi, Egypt and Morocco in 2008. The total transfer cost (including agricultural subsidies) was estimated to be between 2 - 4.5 percent of GDP in Malawi, Mauritania, and South Africa in 2008. In Malawi, the transfer cost, estimated at about 2.6 percent of GDP (approximately 15 percent of government expenditure), was entirely devoted to supporting poor farmers.

23. The fiscal cost of high food prices is particularly significant in those African countries that were more exposed to international food and fuel price shocks as they cumulate the negative effects on public finance and inflation of both crises. Countries such as Djibouti, Eritrea, the Gambia, Sierra Leone and Togo continue to face a fiscal cost that was beyond their budgetary means. The effort to control inflation is also proving difficult as high food and fuel prices are placing further pressure on fiscal expenditures of several countries. Where markets are not functioning well and food items are in short supply, a cash injection can also result in local inflation.

24. Response to high food prices have also absorbed a significant amount of foreign exchange in many countries, especially those with low capacity to import when measured by the value of food imports as a share of foreign exchange reserves. The impact of the 2008 food and fuel price increases could exceed 50 percent of the initial international reserve for the following African countries: the Democratic Republic of Congo, Eritrea, Ethiopia, Guinea, Liberia, Madagascar, Malawi and Zimbabwe (see Annex1).

Financial Support[9]

25. Global ODA for agriculture accounted for 4 percent of total ODA in 2007 compared to an average of 18 percent in the 1980s. Allocation to agriculture represented only 5.9 percent of total G7 ODA to SSA in 2007.

26. In response to the global food and fuel crisis, a High-Level Task Force (HLTF) was established in April 2008, bringing together heads of the UN specialized agencies, funds and programmes, Bretton Woods institutions and relevant parts of the UN Secretariat. The Comprehensive Framework for Action (CFA) created under the HLTF emphasizes the need for African governments to provide additional budgetary resources for social protection systems and more specifically to increase the share of agriculture in public spending. This was a reminder to African governments to honour commitments made in the Maputo Declaration of 2003 to increase public spending by at least 10 percent for agriculture and rural development within five years. However, by 2007, only nine African countries were spending 10 percent of their budget on agriculture. Another nine countries were close behind at rates of 8 to 10 percent, but the majority of African countries achieved between three and six percent (Figure 11).

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[9] Issues related to investment and financial support to agriculture are well document in FAO and elsewhere. A recent report by FAO provided an assessment of aid flows to agriculture in Africa. "*Rapid Assessment of Aid Flows for Agricultural Development in Sub-Saharan Africa*". FAO Investment Centre Discussion Paper, September 2009.

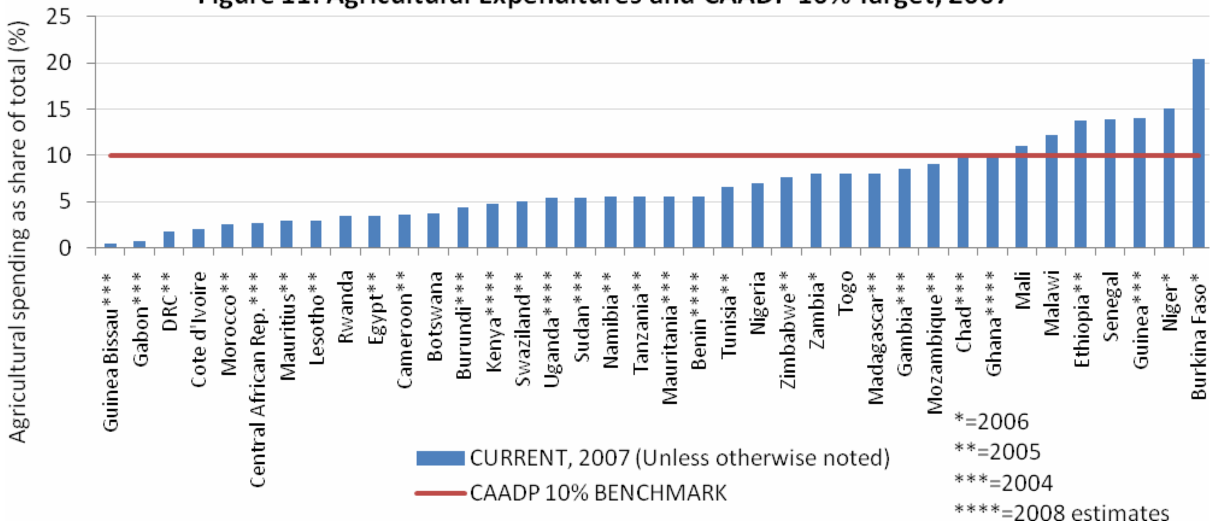


Figure 11: Agricultural Expenditures and CAADP 10% Target, 2007

27. The MDG Africa Steering Group, which was established in late 2007 as a special task force of international organizations to strengthen joint efforts in support of the MDGs in Africa, has recommended that annual development assistance for African agriculture to rise to US$ 8 billion by 2010[10].

28. Furthermore, donor countries are urged to double ODA for food assistance, national support, safety net programmes, and for an increase in the percentage of ODA to be invested in food and agricultural development to 10 percent within five years. Figure 12 shows the declining trends in ODA to agriculture and selected sectors in sub-Saharan Africa.

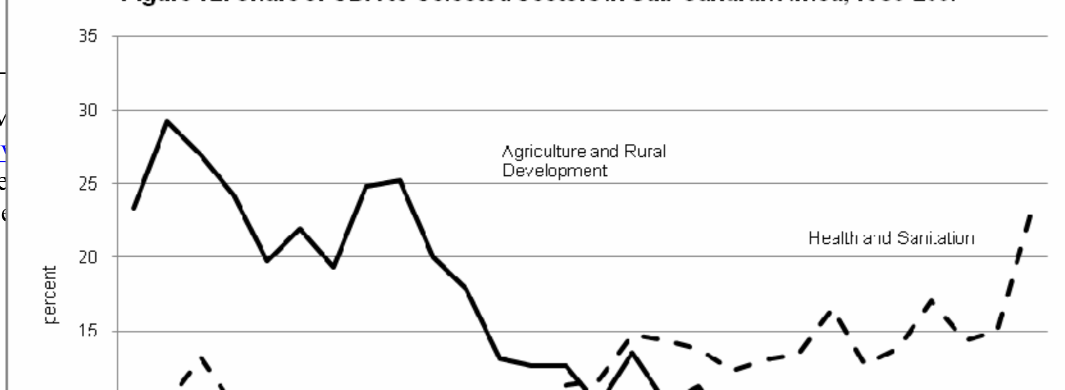


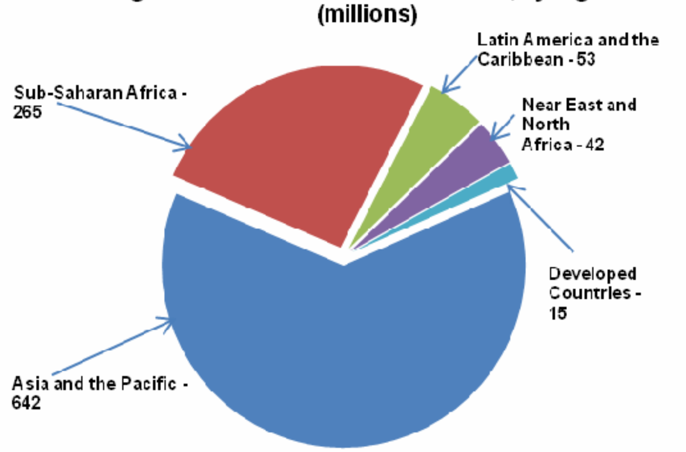
Figure 12: Share of ODA to Selected Sectors in Sub-Saharan Africa, 1980-2007

[10] M... urity": www... itional inve... billion dep...

29. In spite of the negative consequences of the food and fuel crisis on the world's poorest and most vulnerable population groups, better-than-expected global food supply in 2007/8 has led FAO to revise its earlier estimates of undernourishment[11]. The revisions applied to the FAO undernourishment estimates, imply that the number of undernourished in the world will have risen to 1.02 billion people during 2009, even though international food commodity prices have declined from their earlier peaks. If these projections are realized, this will represent the highest level of chronically hungry people since 1970.

30. In Africa, hunger and malnutrition rates have increased sharply since the food price crisis and increased further following the global economic downturn. The number of undernourished reached 265 million in 2009 compared to 212 million in 2004-6, a rise of 25 percent. An additional 24 million people in Africa were undernourished due to the impact of high food prices in 2007/8 (Figure 13).

Figure 13: Undernourishment in 2009, by region (millions)



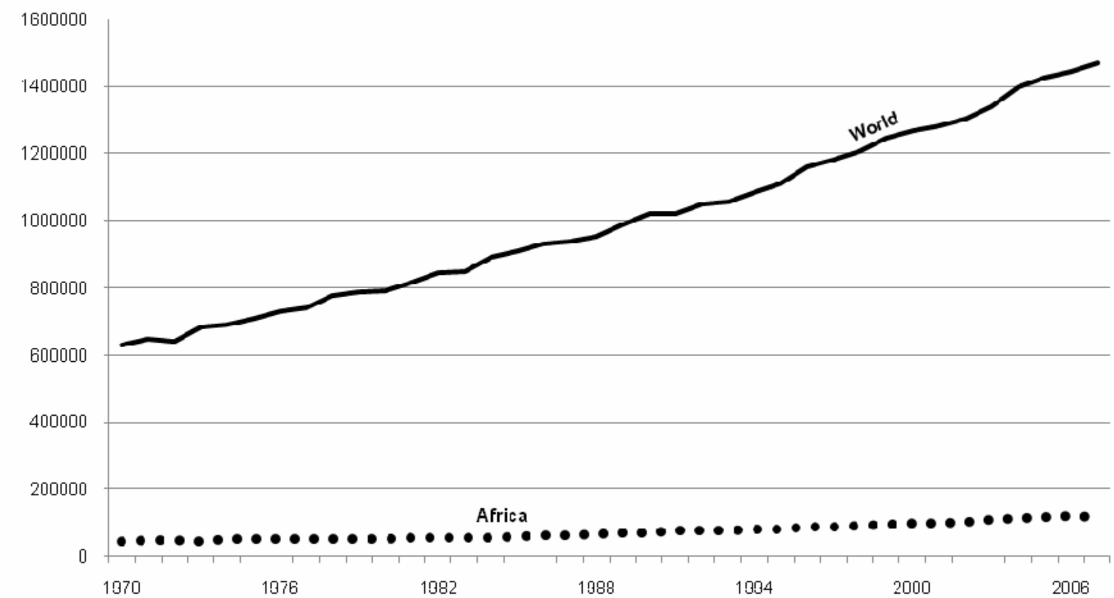
31. The 2007/8 food crisis highlighted the extreme vulnerability of African countries' food security to external shocks. High prices and a tightening of supply of basic foodstuffs hit African countries especially

[11] For a description of the methodology used to revise the estimates, see "*The State of Food Insecurity in the World*" FAO 2009.

hard. This is largely due to the deeper and more protracted production crisis affecting African agriculture. Productivity in African agriculture is low in comparison to other regions of the world. Even more worrying is the fact that productivity has not seen any real improvement over the past decades. Food output has stagnated and remained low, while they have increased in other regions of the world (Figure 14).

32. The prevalence – and indeed the worsening – of food insecurity in Africa points to a serious failing of development strategies at both the national and the international level. There has been a neglect of the agricultural sector in the region for decades – leading up to the food crisis of last year. In part, this neglect has been a consequence of the policy of strict fiscal austerity imposed on African countries, which has severely curtailed State support of agriculture. This has manifested itself in poor rural infrastructure, low coverage of extension services, reduced provision of subsidies for inputs and finance for farmers, and reduced investment in research and development in the agricultural sector.

Figure 14: Trends in Food Production, 1970-2007
(1999-2001=100)



Threats

33. While the risks of increased food insecurity may be more pronounced in urban areas, where people rely exclusively on markets, they are of particular significance in rural areas, too, where over 60 percent of Africa's poor reside and where a large percentage of poor rural households are net-buyers of food. It is already evident that many smallholder farmers, who constitute the large majority of agricultural producers, are unable to respond to food price hikes with increased production due to a lack of access to financing facilities, agricultural inputs and markets. As a result, they find themselves struggling in their effort to feed their families.

34. There is also the risk that in the face of sustained high prices and lack of measures to assist these vulnerable populations, there will be an irreversible impact on human development, particularly for women and children. Over 80 percent of Africa's population does not have access to social protection systems of any form. This means that the most effective mechanism for reaching vulnerable people is not in place. This leaves millions with limited, often harmful, coping mechanisms including reducing meals, eating less nutritiously, taking children out of school, selling livestock and other assets, or borrowing money to feed their families. Reduced nutritional intake may increase malnutrition rates for generations to come with spiraling effects. It worsens the health status of populations and reduces resilience to disease and shocks.

35. Rising food prices bring the threat of unrest and political instability. This threat is particularly acute in countries in conflict or post-conflict situations where political and social institutions are fragile and less able to provide the rapid response which can calm social panic. About 20 countries in Africa, accounting for a third of the region's population, continue to record very low rates of economic growth that imply stagnant or even declining per capita incomes. Many of these are fragile states affected by conflict. Their policy agenda comprises a mix of security enhancement, political reform and consolidation, capacity building, and actions to build private sector opportunities. They need international aid, but they also need to strengthen basic governmental capacity to ensure its effective use[12].

36. The rise in food prices is having an immediate adverse impact on observed inflation rates and on the balance of payments in many Africa countries. In addition, the fiscal impact of measures in response to the rise of food prices—both to stimulate food production and to assist those worst affected by the higher food prices—needs to be taken into account in setting appropriate macroeconomic policies.

37. The current food crisis also threatens the larger international food market. The worldwide reduction of national grain stocks in recent years was the result of increasing confidence that prices would remain relatively stable and that global trade would permit countries to rapidly acquire grain in international markets when needed. The recent combination of export restrictions and severed access to existing food stocks, compounded by subsidy and biofuel policies of major exporters, has contributed to undermining that confidence. This could threaten continued progress toward a fair and equitable international trade system as countries consider refocusing on national food self sufficiency based solely on domestic production and stocks – policies which in the past have generally undermined agricultural growth and have had limited success in actually addressing the desired national food security objectives.

Opportunities

38. The current context is a wakeup call for immediate action in several areas that can help achieve global food security and poverty reduction. While the majority of agricultural production will continue to come from larger farms, there is a particular opportunity to dramatically increase smallholder productivity and production. Public investments, while generally supporting the enabling environment for all farm scales, are particularly important to provide a "level playing field" for smallholders to realize their comparative advantages in agricultural production.

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[12] World Bank, "Global Monitoring Report, 2008".

39. Policies and programs that address the current constraints faced by smallholder farmers can encourage further public and private agricultural and rural development investments in many low-income, food-deficit countries. Well-targeted interventions need to ensure urgent access to agricultural inputs (i.e. seeds, fertilizers), rehabilitation of infrastructure, and methods to decrease post harvest losses. This will boost yields and increase rural household welfare as well as aggregate local food supply. Such measures must be complemented with significantly increased investments in agricultural technology research and infrastructure, as well as policies to boost and sustain the productivity of smallholder farmers with due attention to environmentally sustainable practices (e.g. conservation agriculture, water and soil conservation). Consistently applied, these measures, along with improved access to financing facilities and markets will greatly increase agriculture's contribution to economic growth and poverty reduction in Africa.

40. African producers are likely to reap the rewards of transmitted effects of higher global food prices, providing the opportunity to transfer surplus income from higher farm gate prices. Based on the analysis given by Binswanger-Mkhize (2009) assessing the opportunities for African agriculture and food security, high food prices are forecast to stay into the medium term as the period of globally falling real prices of food, comes to an end. This would mean gradually increasing agriculture commodity prices for rural producers for decades to come offering substantial returns to low income producers in Africa. Productivity gains are also more likely in this scenario where farmers will be able to divert capital to accelerate mechanisation, enable access to more profitable channels of credit and reap the advantages from increase utilisation of inputs. Fertiliser utilisation which currently has the lowest rate in SSA could be directly increased as a result of higher farmer income.

41. Drawing on what is already in place and functioning well, the current situation provides a critical opportunity for more focused attention to needs assessments, early warning, contingency planning and risk management. These provide a way to preempt and mitigate the risks associated with volatilities in the food market in the future. International food assistance programs are critical to address the needs of vulnerable populations and prevent their sliding into destitution and resorting to harmful coping mechanisms. However, these programs cannot reach all of the worlds malnourished and hungry. What is needed is to put in place targeted comprehensive social protection systems that progressively achieve universal coverage of vulnerable groups with linkages to basic social services. In addition, expansion or revision of critical nutrition, water and sanitation, and health programs can be undertaken. Once in place, these programs will build resilience and enhance people's capacity to face future shocks.

42. Finally, there is also now a clear opportunity for international leadership in adopting a renewed strategic stance on key issues such as agricultural trade, and to assess the most effective ways to tackle food market volatilities. The steps taken by African countries/regional groups to further strengthen regional integration and intra-African trade is a step in the right direction. Strong commitments to reform agricultural subsidy programs and market access would help remove a major barrier to progress in the World Trade Organization (WTO) Doha trade talks, while still implementing the existing agreed provisions to protect consumers in low-income, food-importing countries and including provisions to complement efforts to increase investment in smallholder agriculture. At the same time, consensus is required on means to ensure greater complementarity between food production priorities, biofuel developments and environmental management. Moreover, measures should be considered to rebuild confidence in the international and regional trading systems, including assessments of whether to (re)build well-managed global and regional grain stocks or make greater use of financial market instruments that could reduce and protect countries from volatility in food markets.

V. CONCLUSION AND WAY FORWARD

43. While emergency measures can address the most urgent needs, the food crisis in the longer run must be addressed at the national and international policy level in order to boost sustainable investment,

innovation and productivity growth. In the short term, emergency measures through UN food programmes and bilateral food-related development aid are one priority for ensuring that sufficient food is available to the poorest households. So is assistance to poor smallholder farmers to boost production – for example, by expanding their access to such vital inputs as seeds and fertilizer. At the international level, preparing a coordinated global response to global speculation in food prices is another urgent task. This should include measures to allow concerted government intervention in food markets if there is a strong indication that speculation is driving prices. Similarly, international coordination could help minimize the potentially dangerous implications of food hoarding and restrictions or bans on food exports. Producer-consumer cooperation schemes, and schemes that promote integrated agricultural production for food and fuel, should also be looked at anew.

44. The inflationary effects of rising food and energy prices need to be tackled as well. Many African governments may be faced with inflation beyond targeted levels, which could well make them reluctant to ease monetary policy, even though that is what is required to offset the expected slowdown in economic growth. Again, global cooperation may be needed to avoid an accumulation of repressive measures.

45. A priority in the medium term is to address the under-capitalization that limits food production and productivity in many African countries. Cheap and reliable credit for small farmers and enhanced public investment in infrastructure and irrigation are therefore important. With greater public and private investment in agriculture and rural development, and especially in agricultural R&D, Africa's smallholder farmers could mobilize their potential, improving not only their own nutrition and incomes but national food security and economic growth as well. Other medium-term priority measures must be for developed countries to consider some flexibility for their biofuel blending targets; to review the erection of protectionist barriers against ethanol and biodiesel imports from African countries; and to review the granting of subsidies to domestic biofuel and feedstock producers. At the same time, the opportunities that biofuels can present in terms of reduced energy bills and a more dynamic agricultural sector should not be ignored. Another priority is to reduce long-standing agricultural export subsidies and domestic support policies in developed countries, which have hurt African agriculture, as mentioned above. In this regard, current price levels offer a double dividend. In Africa, they can motivate farmers to boost production. And in the developed world, where they offer farmers a decent return without the need for subsidies, policy makers can use the opportunity to phase out the subsidies and invest the freed-up financial resources in agricultural development in developing countries. An agreement on agriculture in the current Doha Round of negotiations could help capitalize on this dividend.

46. In the long term, raising agricultural productivity around the globe is clearly crucial in addressing the substantial increase of both food consumption and land use for non-food purposes. At the national level, it needs to become a priority in development strategies. Developing countries must design a policy framework that creates the right incentives for investment in agriculture and defines the appropriate mix between food and export crops. They must provide the necessary infrastructure and extension services. They should calibrate their national trade policies to promote agriculture production; eliminate tariffs on agricultural inputs; and provide better training and knowledge to farmers. At the international level, these efforts must be supported through increased ODA and investment in infrastructure and agricultural R&D, and by removing distortions in the international agricultural market.

ANNEX 1 - Summary of the immediate policy responses by 18 of the most affected African countries[13]**:**

Benin – In 2007, the government introduced fiscal measures to address the rising food prices. The measures consist of elimination of customs tariffs for pasta, tomato paste, and sweetened condensed milk; and reduction of customs fees—using below-market reference prices for taxation purposes—for refined sugar, rice, wheat and wheat powder, corn and maize, soybeans, and petroleum products. Traders are urged to downwardly adjust prices to reflect tax relief granted to them.

Burkina Faso **-** (i) eliminated custom fees for some food imports (for 6 months) including for rice, pasta, salt, powder milk, condensed milk, and derivatives for powder milk for children, and (ii) announced indicative prices for these food products in early March, which they plan to monitor and support through a strengthened dialogue with wholesalers and retailers. Petroleum pump prices were increased in January 2008. However, pump prices remain below the price suggested by the price adjustment mechanism.

Burundi **-** Tariffs on diesel imports (mostly consumed by the poor) have been reduced from 12 percent to 9 percent. At the same time, tariffs on gasoline imports were raised from 12 percent to 16 percent to preserve overall tax collection levels. To mitigate the impact of higher food and oil prices on the poor they enhancing social safety nets (e.g., food security programs and school feeding programs).

Central African Republic **-** The VAT on several key food items has been reduced. The ministry of commerce has also set up a strengthened framework to monitor the prices of 30 basic necessities, with the participation of consumers and the business community.

Petroleum product prices were adjusted on June 1—as part of the revenue measures under the PRGF-supported programme – by 16 percent on average. Although politically difficult, the measure (amounting to 1/2 percent of GDP) is needed to fill the fiscal gap.

Comoros - Intervened in 2007 by temporarily freezing the price of selected food items and petroleum products prices. The government is considering introducing a number of budgetary measures, including the temporary removal of customs duties on imported ordinary rice, which would cause a revenue loss of about 0.7 percent of GDP.

Congo, DRC **-** The government reduced duties on food and related items. Products affected include cereals, meat, milk, cooking oil, fertilizers, and agriculture equipment. The government also created a commission to regulate food prices.

Eritrea – Intervened to mitigate food shortages through public procurement of food through a state-controlled enterprise, without a direct fiscal cost. However, as the importer benefits from priority foreign exchange allocations, there is an implicit cost as foreign exchange is rationed and the priority allocations crowd out other sectors. Progress has been made in expanding agricultural production, and the government estimates that cereal production in 2006 met 80 percent of the country's needs.

Ethiopia **-** To address the broader problem of inflation and excess demand, monetary policy has been tightened through a tripling of reserve requirements, the money growth target has been lowered, and the authorities are seeking to contain public capital spending with high import content. To protect domestic food supply, the government banned exports of main cereals and suspended the WFP's local purchases for emergency interventions. In the meantime, targeted food subsidies are being provided with an estimated cost of 0.1 percent of GDP for 2007/08. The VAT and turnover tax on grain and flour was lifted in March 2008 with minimal revenue loss. Fuel prices were increased in January 2008, although by less than required for a full pass-through of world price increases.

[13] These are countries described by the IMF as those for which the trade balance impact of the food and fuel price increase exceeds: either 50 percent of initial international reserves or 2.5 percent of GDP. See http://www.imf.org/external/np/pp/eng/2008/063008a.pdf

Gambia – Sales tax on rice imports were reduced from 15 percent to 5 percent in July 2007 and eliminated it altogether in May 2008. At the same time, they increased other taxes (on car parts and used vehicles) to compensate for the revenue loss. The authorities also raised the price of petroleum products in May by 10-24 percent. Although there is no budget subsidy for petroleum products in aggregate, the price of kerosene is cross-subsidized by the prices of other petroleum products.

***Guinea* -** The government's short term response to higher food and fuel prices envisages increased support for the transportation of public civil servants and students. The expected fiscal cost of these measures would amount to 0.4 percent of GDP. The government is also exploring ways to increase domestic food production and to build up an emergency stock of food products. The authorities have also called for emergency food assistance to finance programs that would target the most vulnerable segments of the population. They have so far resisted social pressure to re-introduce the ban on exports of agricultural and fish products that was lifted at end-2007.

***Guinea Bissau* -**The government responded by reducing taxes on rice and fuel imports. Since March, taxes on rice imports are fully exempted, while the reference price used to calculate import duties for rice and diesel imports is much lower than the actual import price. The loss in terms of potential tax revenues from rice and fuel imports for 2008 is estimated between CFAF 2-3 billion (1-1.5 percent of GDP or some 10 percent of tax revenues for the year).

***Liberia* -**The government's strategy has been to inform the public about the origin and causes of the high world fuel and food prices, as well as its limited ability to sustainably protect the domestic economy from such movements. Increases in fuel prices have been allowed to pass through to domestic prices. The government suspended, with effect from March 1, 2008, the rice import duty. In addition, the government adopted a three-pronged approach to: (i) increase domestic food production; (ii) mitigate the impact of rising food prices, and ensure consistent supplies; and (iii) maintain access to food among vulnerable households. The total annual cost of the suspension of the rice import duty is estimated at US$8 million (0.9 percent of GDP). An export ban on food, announced in mid-May, was withdrawn by the end of the month.

***Madagascar* -** The authorities have negotiated rice imports from India at below market prices, and have recently announced a ban on their exports of rice. Over the medium term, the intention is to increase domestic rice production in order to become a net rice exporter. There has been some moral suasion on oil distributors and taxi operators to limit the pass-through of international oil prices in domestic prices. In 2008, the measures undertaken had an overall effect on the fiscal budget of about 0.4 percent of GDP, comprising: (i) a temporary reduction of the VAT on rice, on lighting/cooking fuel, and possibly other primary necessity goods; (ii) a fuel subsidy for certain categories of urban transport; (iii) a school feeding program; (iv) a cash for work program; and (v) support for a countercyclical (off-season) rice crop. Given the anticipated increase in energy costs, the authorities postponed a planned rise in the electricity tariff in April 2008, which would have required an increase in the budgetary transfer to the state utility company.

***Malawi* -** There has largely been a continuation of past policies. There are no fuel subsidies and no change to the fertilizer subsidies program (itself implying a higher budgetary cost given higher world prices). An Inputs-for-Assets program for irrigation equipment is in place, and the government plans to increase its strategic maize reserve by 67 percent. The government also reasserted an export licensing requirement on maize exports, except to Zimbabwe, in response to the recent increase in world food prices.

***Mali* -** The authorities have granted tariff and VAT exemptions on rice imports, lifted administrative hurdles to rice imports, and promoted importation of lower cost rice varieties. A major program to boost production by 2009 has been launched, at a cost of about 1 percent of GDP. Fuel taxes have been trending down for the past year, absorbing much of the increase in world prices, but taxation is set to stabilize under the new PRGF.

***Sierra Leone* -** For the short term, the authorities have taken a number of administrative measures and are strengthening dialogue with all stakeholders on the appropriate way to address the food crisis. They have: (i) reduced the import duty on imported rice and flour to 10 percent from 15 and 20 percent, respectively; (ii) changed in December 2007 the import duty on petroleum products from an ad-valorem rate of 5 percent to a specific rate of US$20 per metric ton (roughly equivalent to an ad-valorem rate of 2.5 percent); and

(iii) imposed a ban on export of rice and palm oil. Also, rice and flour importers have been asked not to adjust domestic prices above the increase in international prices. For the long term, the authorities have committed to creating the conditions for achieving food self-sufficiency and security. In this context, they are: (i) expanding land available for agriculture; (ii) increasing smallholder farmers' access to improved inputs; and (iii) strengthening extension services.

Togo **-**The authorities have initiated a social dialogue, distributed some grain reserves, and repaid arrears. They intend to support subsistence agriculture by distributing fertilizer to farmers at last year's market prices. They also intend to appeal for donor assistance in raising productivity in agriculture. The government resisted the unilateral tax/tariff reductions and price controls applied by other WAEMU countries. As for gasoline, they intend to keep retail prices unchanged for the time being, based on the existing price stabilizing mechanism agreed with the private importers and retailers.

Zimbabwe **-** Price controls on food items predate the global food crisis. Since June 2007, the government has been controlling and monitoring prices for all food items. These controls have contributed to widespread and severe shortages of basic staples in the formal market.

ANNEX 2: Sub-Saharan Africa : Impact of 2008 Food and Fuel Price Increases

(Percent of 2007 GDP)

	BOP Impact [1]					Memo :
	Food	Oil	Food and Oil Shocks	Other Commodities	Total Shock	Food and Oil BOP Impact/ Reserves (Percent)
Selected countries						
Angola	-0.5	37.7	37.2	0.0	37.2	188.6
Benin	-0.6	-2.0	-2.5	0.3	-2.2	-11.8
Burkina Faso	-0.3	-2.7	-3.0	0.5	-2.5	-22.1
Burundi	-0.4	-3.9	-4.3	0.9	-3.4	-31.4
Cameroon	-0.7	5.3	4.7	0.5	5.1	35.4
Central African Rep.	-0.8	-1.8	-2.5	0.1	-2.4	-61.3
Chad	-0.3	22.8	22.5	0.5	23.0	179.9
Comoros	-2.7	-2.9	-5.6	-0.9	-6.5	-24.7
Congo, Dem. Rep.	-1.5	0.0	-1.5	0.0	-1.5	-79.4
Congo, Rep.	-0.6	33.1	32.5	0.1	32.6	126.5
Côte d'Ivoire	-1.1	2.0	0.9	2.1	3.0	9.3
Equatorial Guinea	-0.3	51.8	51.5	0.1	51.5	157.2
Eritrea	-2.4	-6.1	-8.5	-0.1	-8.6	-407.7
Ethiopia	-0.8	-2.6	-3.4	0.4	-3.0	-71.7
Gabon	-0.3	26.1	25.8	0.1	26.0	258.8
Gambia, The	-2.7	-2.3	-5.1	0.0	-5.1	-27.1
Ghana	-2.3	-8.1	-10.4	5.5	-4.9	-49.6
Guinea	-1.6	-3.6	-5.2	1.0	-4.2	-148.1
Guinea-Bissau	-1.1	-7.6	-8.8	0.0	-8.8	-31.5
Kenya	-0.8	-3.6	-4.4	0.3	-4.2	-38.8
Liberia	-4.5	-11.1	-15.5	0.3	-15.3	-96.0
Madagascar	-0.7	-3.1	-3.8	0.0	-3.7	-34.4
Malawi	-0.8	-2.9	-3.7	-1.0	-4.7	-58.2
Mali	-0.6	-2.9	-3.5	5.4	1.9	-22.4
Mozambique	-1.1	-3.1	-4.2	0.5	-3.8	-24.3
Niger	-0.7	-0.8	-1.5	3.6	2.1	-12.1
Nigeria	-0.7	16.1	15.5	0.0	15.5	49.0
Rwanda	-0.4	-2.0	-2.4	0.3	-2.2	-14.4
Sao Tome & Principe	-0.4	-2.0	-2.4	0.3	-2.2	-8.9
Senegal	-1.5	-4.0	-5.5	0.0	-5.5	-39.4
Sierra Leone	-0.9	-3.7	-4.6	0.1	-4.4	-36.7
Tanzania	-0.9	-4.6	-5.5	1.7	-3.8	-35.1
Togo	-0.4	-5.6	-6.0	0.6	-5.5	-33.6
Uganda	-0.7	-2.1	-2.7	0.8	-2.0	-12.3
Zambia	-0.1	-2.7	-2.8	-0.1	-2.9	-28.8
Zimbabwe	-0.4	-1.7	-2.0	0.8	-1.3	-116.6

Source : IMF, "The Balance of Payments Impacts of the Food and Fuel Price Shocks on Low-Income African Countries: A Country-by-Country Assessment", June, 2008.

1 The BOP impact is calculated as the trade balance change resulting from changes in the terms of trade for each low-income country in SSA. It measures the effect of the expected increase in prices of exports and imports in 2008 compared to 2007, taken as given the 2007 volumes of trade, as a share of GDP. The oil prices used in the calculations are $ 71.1/barrel in 2007 and $ 112/barrel in 2008.