



BMZ Factsheet

Increasing food prices and their impact on development policy

How have food prices developed?

According to the FAO, the Food Price Index rose by 57% in the period between March 2007 and March 2008. Rice prices increased by 75% in the last two months alone and wheat prices soared by 120% last year. These price increases particularly affect the poorest of the poor, who have so little money that they do not have any room for manoeuvre. For these people and for the urban poor in particular, rising prices mean more hunger.

Countries that rely on food imports are struggling harder and harder to satisfy local demand for food. Virtually all African countries are net food importers. According to the World Bank, 33 countries are on the verge of unrest and instability due to the price increases. The World Bank has voiced concerns that in many countries rising food prices could destroy the progress made during the last five to ten years towards achieving the first Millennium Development Goal (MDG1, halving poverty and hunger) in an alarmingly short time.

In view of their minimal purchasing power, therefore, the main focus now needs to be on giving the poor access to food.

Forecasts for further price developments

Prices are expected to increase further in the medium term, depending on how the demand for biomass used to generate energy develops.

Based on the data published by the UN's Intergovernmental Panel on Climate Change, the World Bank expects agricultural productivity in developing countries to decline dramatically by 2080 as a consequence of climate change. A productivity decrease of sometimes more than 25% is to be expected in almost all the countries in Latin America, Africa, South Asia, the Pacific and the Middle East. The only countries where climate change will have more positive than negative effects on agriculture are Egypt, Kenya, Argentina and China and the countries of Central Asia.

What are the reasons for the price increase?

Studies by international organisations such as the World Bank, the International Food Policy Research Institute (IFPRI) and the FAO have shown that it is mainly structural causes that are leading to the dramatic price increase:

- **Stronger demand and changed eating habits:** Higher purchasing power in many developing countries and in the transition economies of China and India in particular has led to an increased demand for food. At the same time, eating habits have changed, too. People are eating more meat and drinking more milk. In China, for example, meat consumption per person increased 2.5 times between 1990 and 2005. As a result, feed for livestock is in higher demand: it takes as much as 16 kilograms of grain to produce one kilo of beef. In addition, continuing population growth is causing the demand for food to increase by 2% per annum.
- **Agrofuel production:** One of the strongest price drivers is the competition between food production and the production of biomass for use in generating agro-energy. According to IFPRI calculations, agro-energy production will be contributing 26% to 72% to food price increases, depending on the product and scenario.
- **Climate change:** Shifts in rainy periods and decreases in precipitation levels due to climate change are affecting the southern hemisphere in particular and have already led to a drop in agricultural productivity in many development countries today. The IPCC expects climate conditions for agriculture to deteriorate further and food prices to increase by an additional 30% if average global temperatures continue to rise.
- **Rising oil prices:** Energy prices have a direct impact on food prices as costs for agricultural production, fertilisers and irrigation as well as transportation go up when energy prices are rising. Since the mid-1990s, crude oil prices have increased from roughly 15 dollars per barrel to currently over 112 dollars per barrel.
- **Lack of investment in agricultural productivity:** Cheap subsidised exports of industrialised countries' agricultural surpluses to developing countries have caused prices on developing countries' local markets to drop dramatically in the past to levels that local agricultural producers could not compete with, despite low wages. But those who cannot sell anything – or can only sell their products at extremely low prices – no longer make investments and are excluded from the general increase in productivity. This is why many African countries that used to be regular exporters of agricultural products 20 years ago have now become net food importers. The FAO

currently lists 82 countries with dramatic food production deficits, including 40 African countries.

- **Overheating of global, regional and local markets:** In the wake of the food supply crisis, some countries that used to be food exporters have now imposed bans or levies on exports of agricultural products. Among these countries are, for example, India, China, Russia, Egypt, Vietnam and Zambia. For neighbouring countries that depend on imports this makes the situation even more problematic and the tightening of supplies is causing the world market price to explode.
- **Speculation:** International capital markets have rediscovered agricultural markets in their search for lucrative and relatively secure investment opportunities. This is leading to higher volatility, in particular when new market players act in a highly speculative fashion.
- **Population growth**

What is the German government doing to prevent more hunger in the world?

Emergency and food aid: In order to prevent immediate hunger crises, the German government is supporting the work of the United Nations World Food Programme. In addition to its annual contribution of 23 million euros and the funding of WFP emergency programmes in crisis situations, the Development Ministry made available 3 million euros back in March and an additional 10 million euros in mid-April.

Bilateral development cooperation: In the medium and long term, structural change measures are needed in developing countries in order to increase food production. In 2006, the German Development Ministry supported rural development by providing funding for bilateral programmes totalling some 577 million euros. In this context, providing advisory services and training for small farmers to increase their productivity and ensuring equal access to land and other productive agricultural resources, particularly for women, plays a crucial role. But providing comprehensive support also means fostering infrastructure measures and supporting the food processing industry.

Multilateral cooperation: Moreover, Germany does not only co-finance projects of the EU and other international organisations of which it is a member but also plays an active part in shaping funding policies (for example, Germany's contributions to EU programmes in the field of agriculture and food security amounted to approximately 100 million euros in 2006). In recent years, Germany has actively urged the World Bank to once more devote a larger share of its funding to rural development. And it has been

successful in these efforts. Not only did the World Bank make the topic "Agriculture for Development" a focus of this year's World Development Report; it also significantly increased its funding. In the period from 2005 to 2007, loans in the agricultural sector increased by 38% compared to the 1999/2001 period. At the last Spring Meeting of the World Bank, its President Robert Zoellick announced further increases. Annual funding for rural development is to be stepped up from the current 450 million dollars to 800 million dollars in the initial phase and to 1 billion dollars by 2011 in the next phase.

What else needs to happen?

How can the international community react?

I. The Food Security Pact

1. Establishing food security

The most effective means of promoting food security, which incidentally has virtually no disruptive side-effects on food markets, is to make direct and targeted transfer payments or give out food stamps to the affected households (primarily to women). Women and children must be given priority. If administrative and governance conditions do not allow the satisfactory implementation of such measures, other viable options are food-for-work programmes, feeding/nutrition programmes and – but only as a last resort – food aid. Strategic cooperation with competent non-governmental organisations such as German Agro Action.

2. Appeasing the markets

The first and most urgent priority must be to appease the markets. Therefore, protectionist measures (export bans etc.) are not an option as these would lead to a further tightening of supply and exploding prices. Another option that hardly affects the markets is the suspension of tax payments.

This would require establishing a certain level of security for the affected countries. If they are willing to dismantle their self-protection mechanisms, they must be given the guarantee that there will be enough food for their populations. Countries such as Vietnam or Zambia must not be left alone in this situation and have to be able to rely on support from the international community.

3. Re-examining agrofuels

Discontinue the use of grain and oleaginous fruit for agrofuel production until markets have calmed down and impose a moratorium on a further increase in blending targets until viable “second generation” technologies and energy production methods based on biomass that are more efficient than agrofuels in terms of energy yield and reducing greenhouse gas emissions (e.g. biogas) are widely available. We urgently need suitable certification systems for agrofuels. The right to food takes precedence over the right to mobility.

4. Investing in agriculture

Today, our most important goal must be a significant, and if possible immediate, increase in agricultural productivity in developing countries. Most small farmers cannot seize the opportunity of higher prices as they have no access to agricultural inputs or cannot afford them. For this, a crash programme will be needed to make available basic conventional inputs (fertiliser, seed, loans) at low prices and to a broad target group and to ensure the marketing of the products. The short-term conversion of existing potential land reserves is no solution.

5. Implementing the Paris Declaration

The Paris Declaration principles (in particular regarding ownership of countries and their civil societies) have to be implemented and promoted; demand-oriented action is crucial.

II. Further approaches:

“New Deal for Global Food Policy” (Zoellick, World Bank)

6. Expanding social protection systems

For measures that are necessary in the short term (see above), public institutions must be promoted in the affected countries, which will, in the long run, also be able to operate social protection systems that can assume tasks going beyond direct food security to include other risks of life.

7. Reducing subsidies for agricultural exports

Within the framework of the WTO, our objective must be to abolish the subsidies for agricultural exports for good so as to ensure that the market-distorting treadmill of export dumping will not start up again once the supply and demand situation has returned to normal.

8. Promoting agriculture in a sustainable manner

The African Union's Comprehensive African Agriculture Development Programme can be regarded as a mature and well-reflected investment plan. The lessons of the World Development Report 2008 will define the priorities. These priorities include: agricultural policy reforms (access to land, water, loans, markets, extension services), a targeted gender policy in view of women's key role in agriculture, strengthening of cooperatives and agricultural associations, increasing local processing, development of risk management instruments, promotion of pro-poor infrastructure and resource protection measures in rural areas, intensifying international agricultural research (CGIAR).

Developing countries also have to invest in sustainable rural development. Investment in small-scale farming is of the highest priority. African countries have pledged to invest at least 10% of their budgets in this sector. India and China have already taken on this challenge and increased their agricultural budgets by 20 to 30% this year.

9. Reforming the Food Aid Convention

The immediate increase in German funding for emergency and transitional aid must be accompanied by structural initiatives aimed at reforming the Food Aid Convention (FAC) and the orientation of the World Food Programme (WFP). The current FAC reform process, which includes efforts to differentiate aid instruments, must also focus on enhancing efficiency and integrating food aid into a long-term food security strategy. In addition, the upholding of minimum commitments under the convention should be advocated so as to send out a political signal to recipient countries.