


# **Driven by Increased Price Volatility, the Global Food Crisis is Not Over**

(Presentation at OECD, Paris, February 12, 2009)

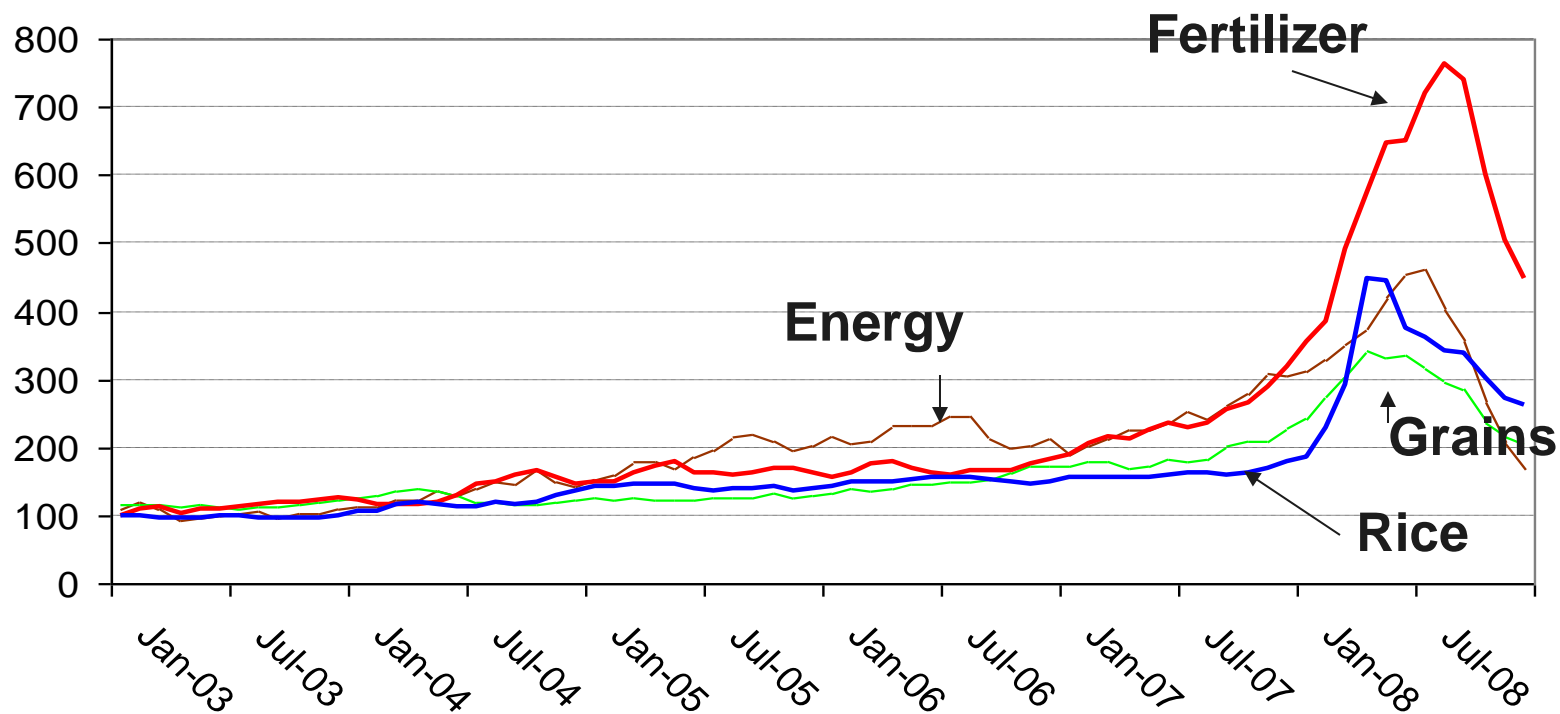


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# Food Prices Now Declining, But Likely to Remain High


Commodity price indices in current dollars to Dec. 2008  
(2000=100)





# Inconvenient Facts on Food Prices

- **World grain prices are still 40% (maize) to 100% (rice) higher** than the 2003-06 average.
- **The recent decline in world grain prices has not translated into a matching decline in many countries** where food markets are not fully integrated, as in landlocked Africa--grain not fully tradable, importance of local supply and demand: e.g. Sept. to Dec 2008:
  - World maize price down 32%
  - Nairobi maize price down 12%
  - Dar-es-salaam price up 16%
- **Inputs are importables** in most countries, thus prices keyed to world prices (esp. volatile oil prices) but increased by transport costs, exchange depreciation, etc.



# **The Meaning of Vulnerability**

- **In a world increasingly characterized by vulnerability of different kinds, being hungry all the time is the cruelest kind, still faced by one seventh of humanity: 923 million people are still chronically malnourished**
- **in Sub-Saharan Africa 1 in 3 people still do not have enough to eat**
- **The poor spend over half their income on food staples, and have no choice but to respond to higher prices by reducing consumption even further**
- **In Ethiopia, grain prices are 80% of family food cost; in the U.S. they are less than 5%**



# **Financial Crisis Makes it Even Harder to Adapt**

- **The financial crisis is affecting all countries, making it even harder for the poor and their governments to adapt to food shocks: inflation, fiscal contraction**
- **Other coping mechanisms such as remittances to developing countries of US\$250 billion in 2007 have started to collapse**

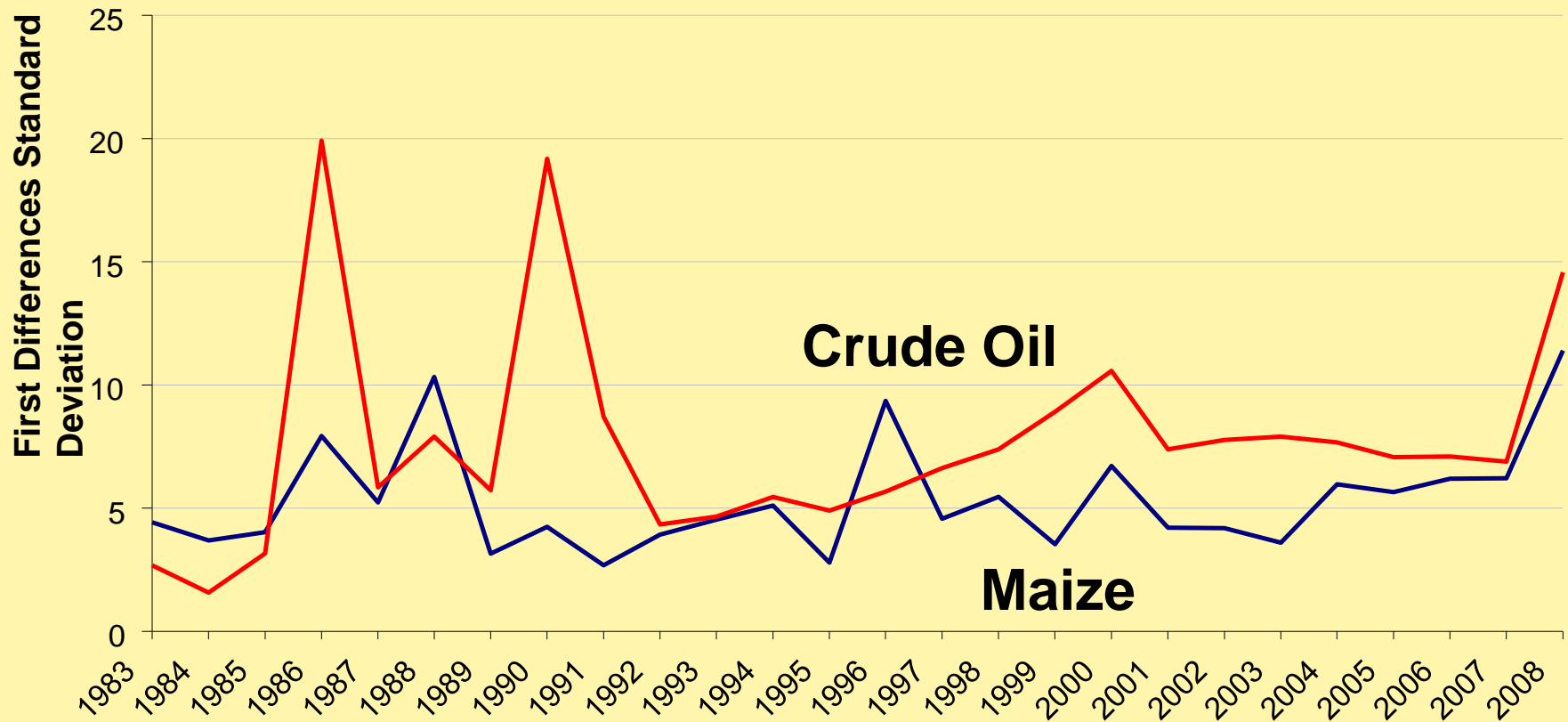


# **Food Price Volatility is the Enemy**

- **Vulnerability to unavoidable hunger in poor countries is significantly increased when staple food prices become more volatile**
- **Price volatility has almost doubled for maize and wheat over the last 10 years (and for rice in the last year)**

# Price Volatility of Maize and Oil 1983-2008

Are maize and oil price volatility converging?



*Standard deviation (in %) of monthly first differences within years.*



# Drivers of Price Volatility (1)

- **The higher price volatility of oil markets was transferred to maize markets as oil prices rose above \$50/barrel and maize-based ethanol use increased over the past 3 years.** Metal and oil prices are historically more than twice as volatile as maize prices
- **Food futures are increasingly tied to the more volatile behavior of non-agricultural commodities.** Commodity index funds included US\$250 billion in agricultural futures in the 2003 to 2007 period, accounting for 27% of total U.S. agricultural futures



## Drivers of Price Volatility (2)

- **Global carryover grain stocks** in the range of 14% to 20% of total usage now, compared to 30% to 35% in the 1980s and early 1990s, have been associated with more defensive policy stances such as grain export bans and panic buying—The issue is market confidence and trust. Note the growing influence of China compared to the OECD actors in grain stocks and markets
- **Climate events are becoming more extreme under climate change**, especially in the tropics, and these are likely to accelerate, leading to much higher volatility and even lower viability of grain self-sufficiency strategies



# Impact of High Food Price Volatility

- **Unless high grain prices** engender productivity growth in developing country agriculture, they tend to raise costs more than overall HH income
- **Volatile grain prices** tend to discourage investment in increasing food productivity that would help solve long-term problem
- **Fact: volatile food prices tend to encourage over-investment in backyard subsistence food** production for risk mitigation (well established in 1970s, 1980s)
- **Hypothesis: volatile food prices also tend to discourage labor-intensive industrialization**
- Empirically the large majority of both urban and rural people worse off in developing countries under increased volatility



# Where to Intervene?

**Fighting the pernicious effects of price volatility at the:**

- **Individual level:** safety nets, consumer protection
- **Farm level:** crop/weather insurance; input subsidies
- **National level: stocks and reserves**, physical and financial; regulation and taxes; creating fiscal space
- **Regional level:** ditto, but what triggers, what price?
- **Global level:** ditto, but what governance? What cost?