

About Briefs

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Abstract

Rising food prices present a very real threat to ongoing efforts to combat poverty and hunger in southern Africa, but that is not necessarily the full picture. If the immediate threat of escalating prices can be effectively addressed, the higher prices themselves could promise longer term benefits to small farmers as well as poor consumers.

The underlying causes of higher prices are largely structural: rising crude oil prices, growing demand for livestock-feed and bio-fuels and declining food stocks. No country is immune and while many "quick fix" remedial measures may provide temporary relief, they do not address the underlying causes.

A more considered policy response would involve:

- Using **comprehensive social transfers** to increase the purchasing power;
- **Cash instead of food** wherever possible;
- Improving **small farmer access** to credit, inputs and markets;
- Facilitating and enabling **domestic marketing** and **regional trade**;
- Continuing efforts to ensure that **global trade** becomes more equal;
- Reviewing **global bio-fuel policy** on the utilisation of carbohydrate sources until the introduction of cellulose conversion technology.

What will higher global food prices mean for poor consumers and small farmers in southern Africa?

As we are currently witnessing, higher food prices have an immediate negative impact on consumers, especially the poorest and the most vulnerable. The threat that rising food prices will increase hunger and poverty – or worse – is understandably of urgent concern to governments.

Worldwide, food prices are soaring. Overall, global food prices have increased by 83 per cent in the last 36 months up to February 2008. Between 2005 and 2007, the world wheat price rose by 70 per cent, that of rice by 75 per cent and that of maize (the staple food for southern Africa) by more than 100 per cent, whilst dairy prices have nearly doubled¹. Food crop prices are expected to remain high in 2008 and 2009 and may then begin to decline, but they are likely to remain well above the 2004 levels for the next decade² at least.

Rising food prices are already being felt by consumers across southern Africa, and populations in several countries are facing increased vulnerability to hunger as stocks from last season's harvest become depleted and this season's harvest remains a number of months off. The direct impact of global food prices on domestic markets is partially dependent on the openness of the market. Increasing integration of international markets has fuelled widespread concern that agricultural trade may jeopardise food security in developing countries. Evidence on this topic is not conclusive, but suggests that engaging in agricultural trade is associated with less hunger, not more³. It will, however, take longer for high global prices to penetrate a relative closed market than it does to have an impact in an open one.

In Maputo, **Mozambique** the maize prices in March were 43 per cent higher than a year ago. In **South Africa**, maize prices have risen 20 per cent in the year to February 2008, dairy products have risen by a third and bread prices increased by 19.9 per cent. It is estimated that in South Africa, poor households will spend 37 per cent more on basic food items⁴. In **Zambia**, where the internal market is slower to respond to global trends, "basic needs basket

¹ IMF data quotes in the Sunday Independent 13 April 2008

² World Bank Press Release: Rising food prices threaten poverty reduction April 2008

³ FAO (2003) Special feature: Trade and food security: the importance of agriculture and agricultural trade in developing countries

⁴ National Agricultural Marketing Council, South Africa, data quoted in Mail&Guardian 18 April 2008

calculations" indicated a 10 per cent increase in food prices in just one month from January to February 2008. **Malawi** met its own food needs for the first time in years in 2006, followed by a bumper harvest in 2007, but pockets of food insecurity remain, and in some areas the maize price is up by 250 per cent (from K800 for 50kg in December 2007 to K3000 for the same bag now⁵). According to the Central Bank of **Lesotho**, overall food prices have escalated by 15 per cent since March 2006 and prices for bread and cereals rose by 23.6 per cent⁶. Shops in **Swaziland** have been forced to increase their prices for most foodstuffs by at least 25 per cent⁷.

What is fuelling the current global food crisis?

- **Higher crude oil prices.** Crude oil prices have risen from US\$80 per barrel in October 2007 to over US\$115 in April 2008⁸. Rising energy costs have affected the entire value chain of food production, from fertilisers to harvesting to storage and delivery.
- **Growing demand for bio-fuel.** Rising fuel prices have led to increasing interest in, and demand for, bio-fuel produced from carbohydrate rich crops such as sugarcane, wheat, and maize. In 2000, about 15 million tons of the US maize crop was turned into ethanol used for fuel: by 2007 this had risen to 85 million tons, or one third of the total US maize harvest. In Europe, it is predicted that wheat utilisation in ethanol production could rise twelve-fold by 2016, and even emerging economies such as Thailand are now requiring that diesel fuel contains a bio-diesel component, in Thailand's case made from palm oil. Some countries (such as South Africa), however, are more cognisant of the potential damage of the bio-fuel boom to food security and have explicitly excluded the use of maize in the production of domestic bio-fuels.
- **Growing demand for animal feeds.** High economic growth in populous countries including China and India is contributing to a significant and sustained increase in global consumption of meat and dairy products. As a result, animal feeds now account for a larger proportion of grain utilisation than direct human consumption.
- **Increased incidence of extreme weather events.** Adverse weather conditions across the globe have reduced recent harvest levels: in 2006/07, drought in Australia resulted in a grain harvest of only 9.8 million tons of grain, compared with a normal 25 million tons⁹, and abnormally cold conditions caused grain harvests to decline in Europe and the United States. Within southern Africa, Zimbabwe, Zambia, Namibia, Angola, Malawi and - especially - Mozambique were badly hit by flooding in early 2008, which could have a negative impact on the second season planting and harvest despite the generally favourable rains in the region.
- **Lower food stocks.** As a result of these demand and supply influences, 2007/08 year-end world grain stocks are expected to fall to their lowest levels for 30 years. The US Department for Agriculture says the country's wheat stocks are at their lowest in 50 years and demand will continue to exceed supply this year. Major grain producers, such as India, are imposing export restrictions to secure domestic supply, further exacerbating rising prices.
- **Increasing dependency ratios.** Migration, HIV and AIDS and urban food security interact in a complex manner. AIDS is undermining urban food security through its impacts on rural production for the towns. In addition, HIV and AIDS may be diminishing the capacity of people to pursue other food security strategies in town, including urban agriculture¹⁰. Urbanisation trends and the AIDS pandemic are putting the burden on a fewer number of producers to meet consumer demand.

5 <http://allafrica.com/stories/200803281214.html>

6 <http://www.reliefweb.int/rw/RWB.NSF/db900SID/ASIN-7DRP8Y?OpenDocument>

7 <http://www.latimes.com/news/nationworld/world/la-fg-foodafrica1apr01,0,3983102.story>

8 www.oil-prices.net

9 www.Unain.net/eng/news/news-244459.html

10 IFPRI (2006) Linking Migration, HIV/AIDS and Urban Food Security in Southern and Eastern Africa

- **Stock market trends.** A shift in the investment strategy of many hedge funds and mutual funds towards commodity future markets in the past year is also having an effect on prices. When futures prices bumped up a year ago, the low dollar encouraged large fund managers to invest in agricultural markets, thus further raising prices. It is estimated that investors have poured billions of US dollars into the commodity markets, causing the prices for products to swing wildly. The price speculations are distorting the normal market supply and demand mechanisms, for example, in March the price of cotton soared despite reports that global cotton supplies have increased; and wheat prices have dropped in the stock market, yet trading remains highly active and investment funds accounted for 40 per cent of all the wheat trading – pushing the prices up¹¹.

Will global prices continue to rise?

High prices should trigger producers to produce more and, given favourable weather conditions, global production of main staple foods should increase. However, there are no indications that demand for staple foods will slacken, especially as emerging economies continue to grow and energy demand from developed countries continues to stimulate investment in bio-fuel technology. On the supply side, while new technologies may help increase productivity, land (and possibly labour) availability may dampen the production response.

Thus, rather than viewing the current food price increases as a one-off aberration, they should more correctly be seen and addressed as a longer-term realignment.

According to current literature, research and forecasts, there is still an incomplete understanding of how increases in food prices will impact long-term regional food security. In the long-term, high food prices could boost domestic production in developing countries and improve food security. However, these positive gains would depend on sound economic policies, and new technology adoption. Overall, it is apparent that there will be significant variation of effects both within and between regions and between different vulnerable groups.

Winners and losers

When food prices rise, poor consumers are the first to suffer and small farmers are the last to benefit.

For several years, consumers around the world have benefited from relatively cheap food as is evident from the fact that farmers in many high productivity countries could only grow agricultural crops with strong government support. Meanwhile, small (and less efficient) producers in developing countries have had to contend with low prices without any substantive support from their cash strapped governments. As a result, investment in agriculture has declined and many poorer countries have become increasingly dependent on imports to meet their domestic food requirements.

If today's higher prices can trickle down to the small farmer in developing countries, they could have a positive impact on farm households, as well as on the landless poor through increased job opportunities and disposable incomes. Higher prices could induce greater investment in rural areas where 75 per cent of the world's poor live. Better prices for agricultural products should therefore have significant medium-to long-term benefit.

In the short-term, however, the consumer is the clear loser from rising prices and, because most small farmers do not produce enough to feed themselves, that includes most of those who are agriculturally dependent as well.

11 www.theglobalandmail.com/servlet/story/LAC.20080421.RCOMMUNITY21/TPStory/Business

What do international stakeholders advocate?

- **FAO** is urging governments and the international community to implement measures in support of poor countries hard hit by food price increases, specifically to provide small farmers with improved access to inputs like seeds and fertiliser to increase local crop production.
- **WFP** is appealing for financial aid as the rising food prices have rendered the original budget (of nearly US\$3 billion) inadequate. WFP hopes to raise an additional US\$750 million to meet the rising costs – just to maintain its current levels of global coverage.
- **NEPAD and the African Development Bank** are calling for an increase in funding and a renewed focus on agricultural investment and water management in Africa, including irrigation, drainage and rainwater harvesting.
- **The African Union** is calling on international stakeholders, like the World Bank, the IMF and the United Nations to assist Africa in all possible ways to cope with the impact of the soaring food prices. Furthermore, through its ongoing “Livingstone-2” process, the AU is encouraging members to include social protection programmes in their National Development Plans.
- **IFPRI** is lobbying in the immediate term for borders to be kept open to trade, increasing global research in agriculture and developing more special programmes to feed young children.
- **The World Bank** is calling on the international community to make agricultural investment and development a priority. Furthermore, the World Bank has announced it will double agricultural lending to Africa in Fiscal Year 2009 - from US\$450 million to US\$800 million.
- **The World Trade Organisation** says that developing countries need to use their power to advocate with the World Bank and the IMF to refocus aid flows to improve supply in agriculture; and, in the short-term, developed countries should assist WFP with more cash to provide emergency food aid to countries worst hit.
- **SADC** has the soaring food prices high on its agenda. The Community is advocating for increased trade amongst SADC member states and an increased effort to secure higher economic growth to combat poverty.

How are governments in southern Africa responding?

According to the World Bank, some countries are initiating or expanding social protection programmes, such as cash transfer programmes to vulnerable groups, food-for-work programmes, or emergency food aid distribution. Several countries have lowered tariffs and other taxes on key staples, in order to provide some relief to consumers. In contrast, other countries have put in place export bans and further restrictions on trade¹².

In South Africa, adjustments to the amounts paid in social grants to the poor are planned in order to mitigate the impact of rising food prices. In Zambia, following the recent floods in the country, and in spite of a large exportable surplus of maize in the 2007/08 marketing year (May/April), the government has reinstated its export ban for any new contracts. The Malawian government has recently imposed an export ban on all maize except shipments to Zimbabwe. Declining domestic supplies was quoted as the primary reason. In Zimbabwe, the government continues to control imports of maize, wheat and sorghum, which are sold at subsidised prices. Although the increase in import prices has been partially mitigated this year by an early import contract of 400,000 tons of maize from Malawi, domestic consumer price inflation drastically erodes the consumers' purchasing power¹³.

¹² World Bank Press Release: Rising food prices threaten poverty reduction April 2008

¹³ FAO GIEWS, crop prospect and food situation February 2008

How should governments in southern Africa respond?

How increasing food prices impact on the poor will depend on how governments weigh up the more evident short-term threat against the less evident longer term opportunity they present.

If seen solely or primarily as a short-term threat, governments may instinctively respond with protectionist and interventionist policies of the type that characterised the food markets of many sub-Saharan African countries in the 1970s and 1980s, when food subsidies, price controls, state marketing boards and trade restrictions tried to keep consumer prices down, but ultimately resulted in declining production, food shortages and black marketeering. Today, increasingly unpredictable supplies of food aid (which, in the past, provided a “cushion” for ineffective interventionist policies) are likely to hasten these negative outcomes considerably.

However, if governments can see beyond the, albeit politically sensitive, short-term threat and opt to implement measures that facilitate and promote domestic production, internal marketing and regional trade, then rising food prices could provide an opportunity to address chronic hunger and poverty in a sustainable way.

In reality, individual governments in southern Africa should recognise that they have as much prospect of reversing rising global food prices as England's King Knut had of stemming the tide. Rather than engage resources in futile efforts to stem this irrepressible flow, they need to work with it, rather than against it, so as to turn it to their best advantage. How can government do this? We put forward six key recommendations:

- ***Expand comprehensive social transfer systems for addressing chronic poverty.*** There is increasing interest in the role of comprehensive social transfer systems as a means for addressing chronic hunger and poverty in southern Africa. Evidence has shown that such instruments, particularly in the form of cash, have a number of distinct advantages. National governments should heed the AU call to encourage members to include social protection programmes in their National Development Plans. If provided from on-budget resources, social transfers can offer a sustainable and predictable means not only for increasing purchasing power and the effective demand of the poorest and most vulnerable, but also for creating a long-term stimulus to small local producers. Social protection as basic social services is a right, and the provision of comprehensive social protection is one of the strongest indicators of good governance.
- ***Use cash instead of food in emergency situations wherever possible.*** Commodity aid supplies are declining, while procurement and delivery costs are rising¹⁴. This argues for a more prudent use of commodity aid. As long as marketing systems are functioning, rising food prices are not in themselves a reason to provide food aid. In such situations cash transfers to those most affected by price increases will prove more effective by increasing purchasing power and promoting increased production by small farmers.

¹⁴ Food for emergency distributions has become more expensive and more limited. Agencies have to cope with decreased in-kind food aid donations and also require more funding to buy food. In addition, distributions have become more expensive due to rising transportation costs. On average, food aid costs have increased by more than 50% over the past five years, and stand to climb another 35% in the next couple of years. WFP's costs of procuring food have gone up by 72% between 2002 and the end of 2007

- ***Help small farmers to help themselves.***
Providing cash to consumers in a comprehensive and sustainable way will increase marketing opportunities for small producers. It is also the best way to encourage them to increase productivity in an environment of rising fertiliser and other input prices. But further measures are needed to encourage and enable small farmers to benefit from increasing demand and rising prices for their produce. These include measures to facilitate access to improved inputs and produce markets, the introduction of improved technologies, access to affordable credit and land reform.
 - ***Promote regional trade and cooperation.***
Regional bodies such as SADC and NEPAD have a critical role to play in ensuring that national governments do not resort to insular protective policies. More trade, not less, within the region will help to stimulate production and keep consumer prices down. Resorting to inward looking instruments such as fertiliser subsidies or trade bans will only exacerbate the problem in the long-term.
 - ***Free global trade.*** Southern African governments should use the current crisis to re-energise the Doha round of trade talks and should continue efforts to ensure more equitable and just global trade. They should campaign that agricultural subsidies in developed countries must be progressively eliminated to enable global supply and demand mechanisms to function properly.
 - ***Lobby for a more food security sensitive global bio-fuel agenda. Some countries,*** such as South Africa, have already restricted the use of certain food commodities (maize in the case of South Africa) in the production of bio-fuels. However, in the absence of the widespread adoption of cellulose conversion technology (which would enable increased utilisation of non-food tree crops), most countries' bio-fuel strategies, which have seen significant investments in recent years, continue to be dependent on carbohydrate rich crops which compete with food consumption.
- By adopting such measures, Africa could turn its current adversity into its future advantage.

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