

ROSA Focus

This Month's Highlight: Social transfers: The opportunities for the EC

The “access to food” approach has become a key pillar of the EC’s food security strategy. It places an increased emphasis on social protection that could contribute to address food insecurity and ensure food access by the poorest. The European Commission has supported the implementation of social transfer/safety net programmes, with the purpose of tackling chronic rural and urban vulnerability through regular and predictable transfers of resources to the most vulnerable targeted households.

The EC is in a process of reviewing its involvement and the potential role of social protection in addressing food security. The unit AIDCO E6 organized a seminar – Entitlement and access to food: Systems of social transfers to fight extreme poverty – in April 2008. This seminar contributed to the exchange of experiences and lessons learnt based on ongoing programmes on social transfers implemented throughout different socio-economic and political contexts and also helped formulate concrete recommendations for future programmes.

Following the seminar, a **concept note** has been developed by unit E6 to set out a possible approach for the European Commission to support social transfer interventions¹. It looks at the specific opportunities for the EC to increase its engagement and identifies the best approaches to incorporate social transfers into its programming². This article focuses on available instruments that may be appropriate in the short term (through the food security thematic programme), in the medium term (through the country strategy papers and national indicative plans), and in the longer term (through its future programming and sector or general budget support).

Past experience

Based on its unique experience of developing social protection within Europe, the EC has a **comparative advantage** as a donor in this field and could play a **leading role** in highlighting the growing importance of social protection in the development debate.

The Commission is already involved in a large number of social transfer/safety transfer programmes, which in the past have been substantially but not exclusively funded by Food Security Budget Line (FSBL) appropriations³. These range from substantial national reforms of social security policy, to small-scale localized pilot transfer schemes. Regions covered by EC interventions included **transition countries** in Central Asia (Kyrgyzstan, Tajikistan), Caucasus (Armenia, Azerbaijan, Georgia and Eastern Europe (Moldova), and **lower income countries** in Africa (Ethiopia, Malawi), Asia (Bangladesh), Central and Latin America (Nicaragua, Guatemala, Chile, etc.).



¹ This is still a working paper discussion draft.

² The concept note also discusses the previous conditions and sequencing needed for setting up social transfers and considers appropriate roles for the EC. These elements were presented in ROSA Focus No. 6, based on a draft of the concept note.

³ In 2006, the Food Security Budget Line (FSBL) was ended and the responsibility for managing the food security and food aid allocations were split between ECHO, the EC Delegations in partner countries, and the Food Security Thematic Programme (FSTP).

Maintaining a flexible response

There are a number of stages and levels at which the EC should engage in social transfers in terms of building the necessary pre-conditions for social transfers to be effective and in terms of necessary decisions at a number of stages in the sequence of programme, design, implementation and evaluation. The potential contribution will be different according to countries, so the EC has to maintain a **fully flexible approach** and adjust its response to the **prevailing conditions and developmental stage of the partner country**.

The sequencing of interventions, and therefore of EC support, is critical to success: certain reforms may need to be introduced before others can be considered. For example, you cannot close “social” orphanages (a problem in many transition countries), and send children back to their families, before instituting a system of child allowances that will enable those families to reintegrate the children.

Similarly, it may be an important first step to rationalise a multitude of existing initiatives that are operating at different levels; but it is often difficult to phase these out, before a reformed national programme is introduced, which may result in a period of “double-funding” while one set of programmes is progressively withdrawn as another more comprehensive one is introduced.

Because social transfers represent a universal approach, and are in theory operated indefinitely (as in OECD countries), they require a significant degree of **learning by doing**. Pilot programmes are all very well, and may establish useful technical lessons and parameters, but they often do not provide much information that is relevant to operating at full national scale. The **process is dynamic**, both in the sense that beneficiaries of social transfer programmes may graduate out of the programme – and others may fall in – and also in the sense that the programmes themselves need to evolve in changing social, economic and political circumstances.

Identifying best instruments to integrate social transfers in EC programming

The EC has a **number of instruments available** to it to make a response, which may be considered as appropriate to the short, medium and longer term. These are as follows:

- Short term → Food Security Thematic Programme (FSTP)

- Medium term → Country Strategy Papers (CSP) and National Indicative Plans (NIP)
- Long term → Budgetary support

The food security thematic programme

One of the seven thematic programmes identified by the Commission is the Thematic Programme on Food Security (FSTP), which is essentially a smaller replacement for the Food Security Budget Line. There are **three components** (out of six) in which the **question of access to food/social transfers can be addressed**.

1. The first is a **global component** (including continental and regional levels) and supports:

- (i) International public goods, in particular pro-poor, demand driven research and technological innovation, as well as capacity development, networking and twinning in the same fields.
- (ii) Global, continental and regional programmes aiming at promoting, strengthening and complementing national food security and poverty reduction strategies in the short, medium and longer-term (e.g. food security information systems, support to initiatives proposed by continental and regional partners, civil society networks etc.)
- (iii) Advocacy and advancement of the food security agenda, as well as harmonisation and alignment with development partners and donors in line with the OECD Paris Declaration on aid effectiveness.

2. The second component **addresses food insecurity in exceptional situations of transition and state fragility**, playing a central role in linking relief, rehabilitation and development (LRRD). It is primarily implemented at national and local levels, to complement the geographical instruments where necessary, in countries where either governments are not in place, or not in control of parts of a country, or no country strategic framework is operational. It supports interventions that:

- (i) protect, maintain and recover productive and social assets vital for food security to allow economic integration and longer term rehabilitation.
- (ii) address vulnerability to shocks and strengthening people’s resilience through support to crisis prevention and management.

3. The third component supports **innovative food security policies, strategies and approaches** and the potential for their replication and South-South dissemination, irrespective of the geographical level. Indicators, outputs and outcomes will be available once the programming document for the

period 2007- 2010, which includes a multi-annual indicative programme, is finalised.

In addition, there is another Thematic Programme, on “Investing in People”, which could potentially also be used to support the introduction of social transfers.

The country strategy papers and national indicative plans

EC Delegations in each country focus on at most two key development “sectors” for their funding. These are agreed with government, and are set out in five-year country strategy papers (CSP). Currently, there are **no countries in which social protection is identified as a priority sector**, although a number of countries’ CSPs include food security as a “sector” in which the pillar “access” is one of the main components of the food security strategy. In such cases there is scope for the Delegations (through the European Development Fund – EDF and the Development and Cooperation Instrument - DCI) to support social transfers, as long as that is consistent with the government’s own policy. This is the case, for example, for the Productive Safety Net Project (PSNP) in Ethiopia and the Rural Employment Opportunities for Public Assets project (REOPA) in Bangladesh.

However, one difficulty with the relationship between food security and social transfers is that, in many countries, food security is seen as primarily a production issue, and responsibility for food security policy often lies with the ministry of agriculture. This distances food security institutionally from a social transfer response, since social protection is usually housed either in a ministry of social welfare or in a ministry of finance or economic planning. In such instances, EC food security staff may be less well placed to enter into the social protection dialogue.

The budgetary support

Budget support may be either general or sectoral. General budget support is based on support for poverty reduction strategy papers (PRSP), macro economic and budget stability, with close attention to public finance management in all sectoral policies. Disbursements are made according to compliance with macro and process conditionalities. **Sector budget support** is designed to ensure support for a given sectoral policy (e.g. social protection), by covering financial gaps towards the achievement of a national policy/strategy according to a sectoral mid-term expenditure framework. Disbursements in this case are made according to fulfilment of sector performance

indicators which, ideally, are consistent with those already contained in a country’s own sectoral policy (e.g. national social protection policy).

In countries where it is deemed feasible, budgetary support is potentially very well suited to social protection, because:

- **Ownership:** It promotes national ownership and coherence between policy, budgeting and actual results.
- **Regulatory function:** The redistributive function behind the social transfers can be considered as a regulatory function of the State, and the national budget is the appropriate place to reflect the pro-poor social priorities and related expenditures.
- **Holistic approach:** It is part of a process that can accommodate a wide range of actions by different players, and is thus multisectoral.
- **Good governance:** It looks at public finance management improvement with a focus on affordability, accountability and transparency.
- **Predictability:** It can help to ensure a long term reform-driven approach with consistent fiscal resources from all related sector policies.

Between 2000 and 2006, the EC food security programme supported the reforms of social protection systems (child welfare, unified system of family benefits) in Eastern Europe, Caucasus and Central Asia region (Armenia, Azerbaijan, Georgia, Moldova, Kyrgyzstan, Tajikistan), **through budgetary support**. This could not have been done without a clear policy matrix and adequate conditionalities, a political will, a clear poverty line, capacity building and good targeting.

The way forward

The EC could mobilize a range of instruments and undertake a large number of interventions, to reduce poverty and food insecurity. The concept note prepared by unit E6 contributes to identify relevant approaches to integrate social transfers in EC programming. The modalities of its implementation should be further explored taking into account multiple sectors, not just food security, but also social and economic cooperation. The step forward will be to develop a **reference document** that could provide operational guidelines.

This article is based on the draft concept note prepared by Nicholas Freeland (RHVP) and Philippe Bertrand (AIDCO E6).

Current food security situation

This article is a report on recent trends in world markets. Food prices remain high in most developing countries. This is in contrast with world export prices, which are well below the levels reached in 2008.

International cereal prices are continuing to fall...

The prices of secondary cereals and rice are continuing their downward trend on world markets (cf. Graph 1). The price of wheat has dropped by 48% compared with peaks recorded in March 2008. In the case of rice and maize, the drop is less marked (between 30 and 38%). However, the real prices of cereals remain higher than any recorded over the last decade (cf. Graph 2).

Several factors have contributed to the drop in world prices, particularly the **steep increase in world cereal production in 2008**⁴. Prospects for 2009 remain satisfactory. Trends in food prices will depend to a large extent on the **level of use** during the new trading season (2009/10). The world recession could lead to a decrease in the demand for cereals, animal feed and biofuels.

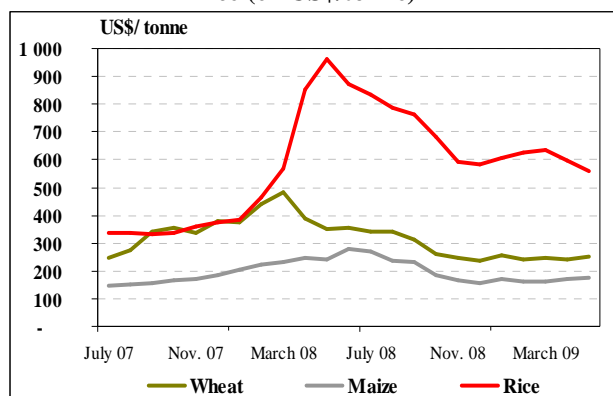
In the case of **rice**, the drop in prices could be less marked in 2009/10 than the drop expected for other cereals. The increase in production will be fairly moderate, because the soaring market prices seen at the end of 2007 are expected to level out. The volumes traded will also remain limited because restrictive policies continue to be applied by the major exporting countries, particularly Egypt, India, Thailand and Vietnam⁵.

⁴ This is estimated at 2.3 million tonnes, a record figure representing a 7% increase over the previous record in 2007.

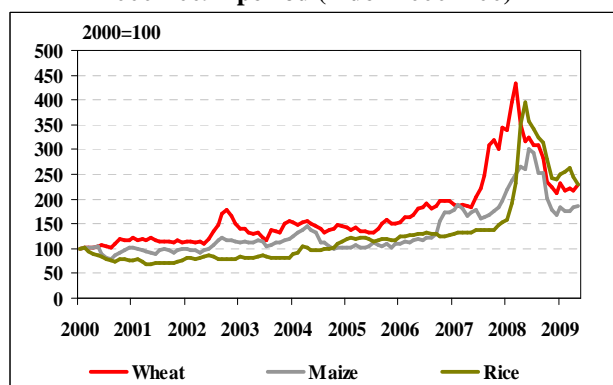
⁵ FAO, Crop Prospects and Food Situation, April 2009.

World markets

Graph 1: Export prices of secondary cereals and rice (en US\$/tonne)



Graph 2: Variation in the price of cereals over the 2000-2009* period (index 2000=100)



*May 2008 (average for the first two weeks)

Indexes were established from the export price (US\$/tonne)⁶.

...but current cereal prices remain high in several developing countries

Despite the fall in world prices, domestic prices continue to be high, and even sometimes reach record levels. According to a recent FAO analysis (April 2009), of the 790 national prices noted in the new database (cf. Box 1), current price levels are significantly higher than 2008 prices in nearly 80% of countries covered. In 10-30% of countries, food prices were the highest ever recorded (cf. Graph 3).

⁶ Wheat: No. 2 HRW (ordinary), f.o.b. Gulf of the United States

Maize: No. 2 Yellow, Gulf of the United States

Rice: White Thai rice, 100% - 2nd grade, f.o.b. Bangkok

Box 1: A new database of national prices

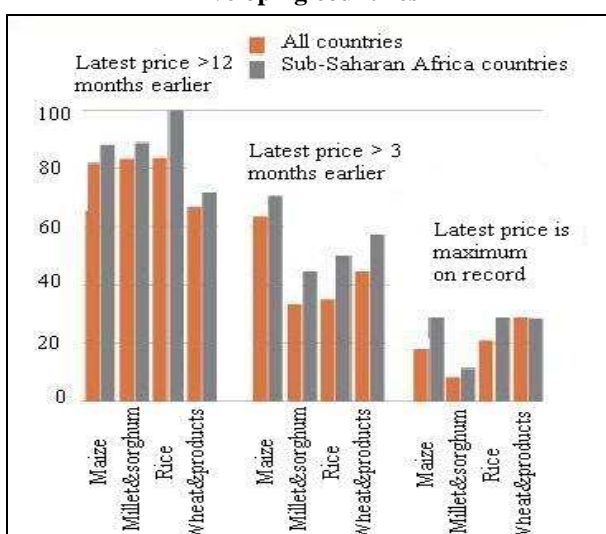
The GIEWS (Global Information Early Warning System on Food and Agriculture) recently launched the "National Basic Food Prices - Data and Analysis Tool" as part of the FAO Initiative on Soaring Food Prices. The main aim is to facilitate monitoring and analysis of food price trends in developing countries. This database covers about 800 monthly domestic retail/wholesale price series of major foods⁷ in 58 developing countries, and world export prices.

Source: FAO, April 2009

Sub-Saharan Africa is the worst affected region. As Graph 3 shows, domestic rice prices are much higher than those recorded for the same period in 2008 in all countries included in the database. Prices of maize, sorghum and millet are rising in almost 90% of countries. With the exception of millet, current levels are higher than the 2008 record prices in one third of the countries.

Prices remain high in other regions too, particularly in Asia for rice and Central and South America for maize and wheat⁸.

Graph 3: Analysis of national prices in 59 developing countries



Source: Database. National basic food prices, FAO

⁷ Mainly cereal and cereal products, but also beans, potatoes, cassava and some animal products.

⁸ FAO, April 2009

A rising trend aggravated by the arrival of the annual hunger season in West Africa

According to the latest Food Crisis Prevention Network (RPCA) bulletin, cereal prices have dropped in some places and during the harvest. However, they remain approximately 15 to 46% higher than the nominal value at the same period in 2007/08 and than the average over the last five years. Several factors have been suggested to explain this situation. One is the high price of imported rice⁹ that causes prices of local cereals to rise. Another is that part of the crop has been used to rebuild family stocks. And added to that, the cost of transport is much higher than before.

Cereal prices could **begin to rise** from May with the arrival of the annual hunger season. An increase in prices that are already high could make access to food difficult for the majority of market dependent household in both rural and urban areas¹⁰.

Price transmission mechanisms

These findings lead to several questions on agricultural price transmission, particularly in Sub-Saharan Africa. What proportion of international price fluctuations is handed on to national markets? Does the transmission affect producers as much as consumers? How long does it take for price variations to trickle down?¹¹ Recent studies have shown that international price fluctuations are transmitted to retail prices, but belatedly, and to a lesser extent, which is what is noted at present on international markets.

This article is mainly based on the FAO bulletin "Crop Prospects and Food Situation" published in April 2009.

For further information:

FAO, Crop Prospects and Food Situation, April 2009

RPCA (Food Crisis Prevention Network), Food Security Information Note - NISA, April 2009

⁹ Rice price inflation in Francophone West Africa was partly driven by the depreciation of the CFA franc against the US dollar at the beginning of the year. Prices are likely to continue increasing in the other countries of the sub-region due to the continuing depreciation of national currencies with the world economic crisis (FAO, April 2009).

¹⁰ Food Security Information Note (NISA) April 2009

¹¹ These questions were raised at the FARM Foundation conference in December 2008.

International news

Feedback from the seminar on “Food, nutrition and gender”

The Danish Ministry of Foreign Affairs organised a seminar on “Food, nutrition and gender: Lessons learned and recommendations for future actions”. It was held in Copenhagen on 28th April.

Presentations included results from a recently study on existing knowledge about causes of nutrition problems and interventions in the field. The authors pointed out that there is a need to identify and nurture leadership to leverage resources and build real participation and good governance. This presentation was followed by brief presentation of experiences from the field: case studies on interventions for improved nutrition from Bangladesh, Tanzania and Afghanistan. The afternoon was dedicated to group sessions looking at possible recommendations for future policies and interventions in the field of nutrition.

During final discussions, the chairman of the DANIDA (Danish International Development Agency) board mentioned the importance of focusing on nutrition and particularly child under nutrition. Nutrition should be on the agenda in the new overall DANIDA strategy (to be developed in 2010).

Extension of the food aid convention

A new Food Aid Convention, replacing that of 1995, was concluded in 1999. It was last extended in June 2008 by decision of the Food Aid Committee until 30 June 2009.

The Council meeting held in Luxembourg on 27 April 2009 adopted a decision establishing its position within the Food Aid Committee on the extension of the Food Aid Convention. A proposal for extending that Convention until 30 June 2010 will be submitted for adoption at the next meeting of that Committee on 5 June 2009.

Source: EU Council

This bulletin was written by the GRET team in charge of animating ROSA (Operational Food Security Network). It is an initiative of AIDCO E6 (thematic support for food security, rural development and environment) in collaboration with AIDCO G4 (Training and Knowledge Management). The viewpoints expressed do not in any case represent the official European Commission viewpoint.