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Can High and Volatile Prices be Good for the Poor ?

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Can High and Volatile Prices be Good for the Poor ?

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Abstract

For decades, despite widespread hunger and severe malnutrition in developing countries there was little attention to agricultural development and food security, and global funding for it was declining. High and volatile food prices have caused a dramatic turnaround in public and political attention to agriculture and food security issues and raised public aid and private funding for it, while global malnutrition has not increased and poverty declined over the past years. Mass media played a crucial role. Policy makers' priorities, global policy agendas and donor funding have followed. Hence, besides a major challenge, the food price spikes also have created a unique opportunity to address poverty and hunger.

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Can High and Volatile Prices be Good for the Poor ?

Andrea Guariso, Mara P. Squicciarini and Johan Swinnen

1. Introduction

Since food prices spiked in 2007 it is widely argued that the “food crisis” has dramatically increased hunger and poverty (United Nations, 2012). However, as Figure 1 illustrates, based on data from the World Bank and FAO, while the incidence of hunger has changed, the total number of food insecure households has not increased and poverty has declined since 2006 (FAO, 2012; Headey, 2011; Ravallion, 2012; Verpoorten *et al*, 2013). This is because the transmission of global food prices to domestic markets has been imperfect, because economic growth has enhanced incomes in developing countries, and because food prices have mixed effects on food security. Poor people spend a vast share of their income on food, and even more so when prices are high. But the incomes of the poor, many of whom live in rural areas and work on farms, may also benefit from rising agricultural and food prices.

Many initial responses to the recent food price spikes ignored these mixed effects and focused purely on the negative impacts (Swinnen and Squicciarini, 2012). However, increasingly, empirical studies and simulations document these mixed impacts across the world (Aksoy and Hoekman, 2010; Dorward, 2012). The heterogeneity among households and countries is consistent with economic predictions: net sellers and exporters of food benefit and net buyers and importers lose; the transmissions of price shocks to local markets have been mitigated by policy interventions and by institutional and infrastructure deficiencies; and negative price effects on poverty and malnutrition have been offset by economic growth over the same period (Headey, 2011; Verpoorten *et al*, 2013). Accounting for positive wage effects for

the rural poor significantly enhances the welfare benefits (Ivanic and Martin, 2011; Jacoby, 2013). Recent estimates and projections suggest that the number of food insecure people was stable or declined despite the food price increases (FAO, 2012; Headey, 2011; Verpoorten *et al*, 2013), and that poverty fell from about 1.39 billion in 2006 to 1.13 billion in 2012 (Ravallion, 2012).

That said, everybody agrees that hunger and malnutrition are still at unacceptably high levels. Yet, the “food crisis” presents a unique opportunity to combat global hunger, malnutrition, and poverty because it caused a massive increase in public and policy attention to food security issues, in public aid and private funding for agricultural development and food security policies.

2. Food price spikes and the global policy agenda

Hunger, malnutrition and rural poverty are nothing new. They have been a major problem for decades in developing countries. Yet, these issues have attracted relatively little public attention and were often low on policy-makers’ priority list. The recent food price spikes changed this dramatically. It had a major impact in moving food security, agriculture, and poor farmers on top of the donor and policy agenda.

To illustrate this, let’s go back a few years in time. We are in 2002 - 2005. According to the leading global indicators, around 14 % of the people in the world were undernourished and more than 10 % of the people were living below the poverty line (see Figure 1). The vast majority (70%) of these people are depending on agriculture for their incomes: 50% are small farmers and 20% are households whose main income is agricultural wages (UN, 2005).¹

¹ UN Millenium Project, Hunger Task Force, 2005

Yet, few people and policy-makers seem to care. There is little interest in the media, poor farmers and food security does not figure prominently (if at all) on the global development policy agenda and donor funding is declining. Figures 2 and 3 illustrate that global donor support for developing country agriculture, the main income source for 70% of the world's poor and food insecure is declining in a structural and quite dramatic way. This continues in the early 21st century despite significant growth in rich countries. Between 2002 and 2005 the share going to agriculture (FAO) in the UN system falls from 17% to 13% and the share of global development aid (ODA) going to agriculture falls from 4.3% to 2.5%.

Now fast forward to the last few years. According to the leading global indicators, there are still a very large number of poor and food insecure, but the numbers are significantly better than 5 or more years before. Around 12 % of the people in the world are undernourished and less than 8 % of the people are living below the poverty line – a decline by around 2% (Figure 1). Other studies estimate that the number of poor and food insecure people has declined by between 50 and 250 million people, depending on the source. As before, the vast majority of these poor and food insecure people depend mostly on agriculture for their incomes.

But now the world cares. Media coverage of food shortages and unrest sparked by malnutrition and hunger points at the poverty of farmers and their problems of surviving and producing enough food to feed the populations in developing countries. All the leading development institutions put food security and agricultural development on top of their agendas and global leaders rush to position themselves as saviors of the hungry. Donor funding follows. Between 2007 and 2011 the share going to agriculture (FAO) in the UN system increases from 13% to 24% and the share of global development aid (ODA) going to agriculture jumps from 2.5 % to 5.3% (see Figures 2 and 3).

What caused this remarkable turnaround ? What made the world suddenly care about the fate of poor farmers in developing countries ? We argue that the main reason is the food price spikes in the late 2000s, i.e. high and volatile prices. In the next sections we support our arguments with empirical evidence on three different indicators: (1) the increase in mass media attention; (2) the shift in the global policy agenda; and (3) the increase in donor financing².

3. Food price spikes, mass media coverage, political agendas and donor funding

Mass media and price volatility

As an illustration of the shift in public attention, Figure 4 shows the correlation between the monthly movements of the food price index and an index of US news coverage of food security and agricultural issues in the mass media. News coverage of food and agriculture increased dramatically after the price spike in 2007, and continued to fluctuate with the prices. The correlation between both is a staggering 83%. Not only does media attention increase when prices rise, media attention declines rapidly when prices fall. Moreover, the shift is disproportionate, and consistent with studies showing that mass media coverage is strongly event-driven (Swinnen and Franken, 2006). Media attention moves more or less in line with food index movements for small variations of the index. However, whenever there are large and sudden increases, the number of articles jumps more than proportionally. For the 2008 peak, for instance, while the price index increased around 200% compared to the reference level, news coverage increased by more than 500%.

Food price spikes, political initiatives and policy priorities

² For more details on the data and the sources see Swinnen *et al* (2013).

Not surprisingly, political leaders have followed this dramatic shift in coverage. As we know from various studies, mass media coverage is an important driver of policy agendas (Prat and Strömberg, 2011). One high profile action is the *L'Aquila Food Security Initiative* by G8 leaders to improve world food security. The extent to which the food price spike affected the global development agenda is illustrated in Figure 5. It is an index of attention paid to agriculture and food security issues in the 6-monthly Communiqués of IMF-World Bank Development Committee, a ministerial-level forum, which advises the World Bank and the IMF on critical development issues. The correlation with the food prices is 85%, almost identical to the mass media index. There is very little attention to food security and agricultural issues up to the price spike of 2007, but emphasis on these issues increases rapidly with the price increases of 2007 and 2010. So, not only media attention, but also the focus of policy makers moves in line with the food price movements and that focus is as volatile as the news index.

Food price spikes and donor funding

The shifts in attention by media and policy-makers have resulted in significant shifts in development strategies and aid allocation. For example, during the years before the 2008 food crisis (2005-2007) the World Bank Group lent on average \$4.1 billion per year to “agriculture and related sectors”. Over the years 2009-2011 the annual average jumped up to \$7.0 billion. Moreover, in 2008 the World Bank created a new Global Food Crisis Response Program which has so far allocated close to \$1.6 billion involving nearly 100 operations in 49 countries.

The share of Overseas Development Aid (ODA) committed every year to Agriculture had been on a downward trend since the mid-1990s – i.e. since OECD publishes data disaggregated by sector -, reaching a low of 3.7% in 2006. However, the trend reverted in 2007 and the share

kept increasing in the year following the “food crisis”, reaching 6.5% in 2011, as illustrated by Figure 2. If one looks at ODA disbursements, which are however only available since 2002 (not reported), the effect appears even stronger: when comparing the pre-crisis period 2002-2007 to the post-crisis period 2008-2010, the relative importance of agriculture within the total ODA disbursements budget increased by more than 30%, moving from an average of 3.7% to 4.9%. No other sector experienced such trend.

Similarly, Figure 3 shows how, within the United Nations (UN), funding for the Food and Agricultural Organization (FAO) increased substantially after the food crisis, reverting a downward trend that began back in the eighties. The share moved from 15.2% before the price increase in 2007 to almost 22.3% in 2010 – a dramatic shift.

Also donor funding for other organizations with a strong focus on food security and agricultural issues, such as the International Food Policy Research Institute (IFPRI) and OXFAM, have gone up significantly since 2008. For example, OXFAM’s fundraising revenue increased by almost 30% between 2008 and 2011.

4. A major challenge, and a unique opportunity

There was severe hunger and underinvestment in agriculture and rural areas of developing countries for a long time (World Bank, 2008). The massive hunger and severe poverty among farmers and rural households attracted relatively little attention or support. In fact funding was declining. In addition, low food prices in combination with institutional and infrastructural constraints provided weak incentives for private investments.

Much of this has changed today. The food crisis has triggered a massive shift in attention and funding for agriculture and food security – probably without an increase in aggregate global

food insecurity. A somewhat paradoxical, but welcome, development is that in times when poor farmers are (finally) receiving higher prices for their products, that public policies and private investments also appear to favor farmers more than in the past.

This increased attention and funding come on top of two other structural improvements. First, economic growth -- after reducing poverty and hunger in Asia over the past decades -- has finally reached significant parts of Africa³. Second, reforms of macro-economic and sectoral policy distortions have reduced policy-induced taxation of poor farmers in Africa and Asia over the past two decades (Swinnen *et al*, 2013). The combination of all these factors creates a unique opportunity to improve food security for the poorest and give farmers in developing countries an opportunity for a structural road out of poverty.

All this makes it even more critical for policy-makers and development organizations (and the research community) to get the policy advice “right” to achieve the MDGs. While there are differences in opinion on some specific policies (e.g. trade liberalization, input subsidies, GMOs, biofuels, etc) there is much consensus on key structural policies, such as the role of safety nets for consumers; the need to improve infrastructure, institutions, rural factor markets – thereby reducing costs for farmers, and lowering prices for consumers --; empowering small farmers and enhancing value chains.

Moreover, we should act fast and thorough. If history is anything to go by, media attention and political priorities can move fast -- and with it donor support and aid priorities.

³ According to the World Bank, the GDP per capita growth rate for Sub-Saharan African countries moved from an annual average of -0.55% over the period 1990-1999 to 2.07% over the period 2000-2011 (World Bank, 2013).

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Figure 1.

Poverty and undernourishment 1990-2012

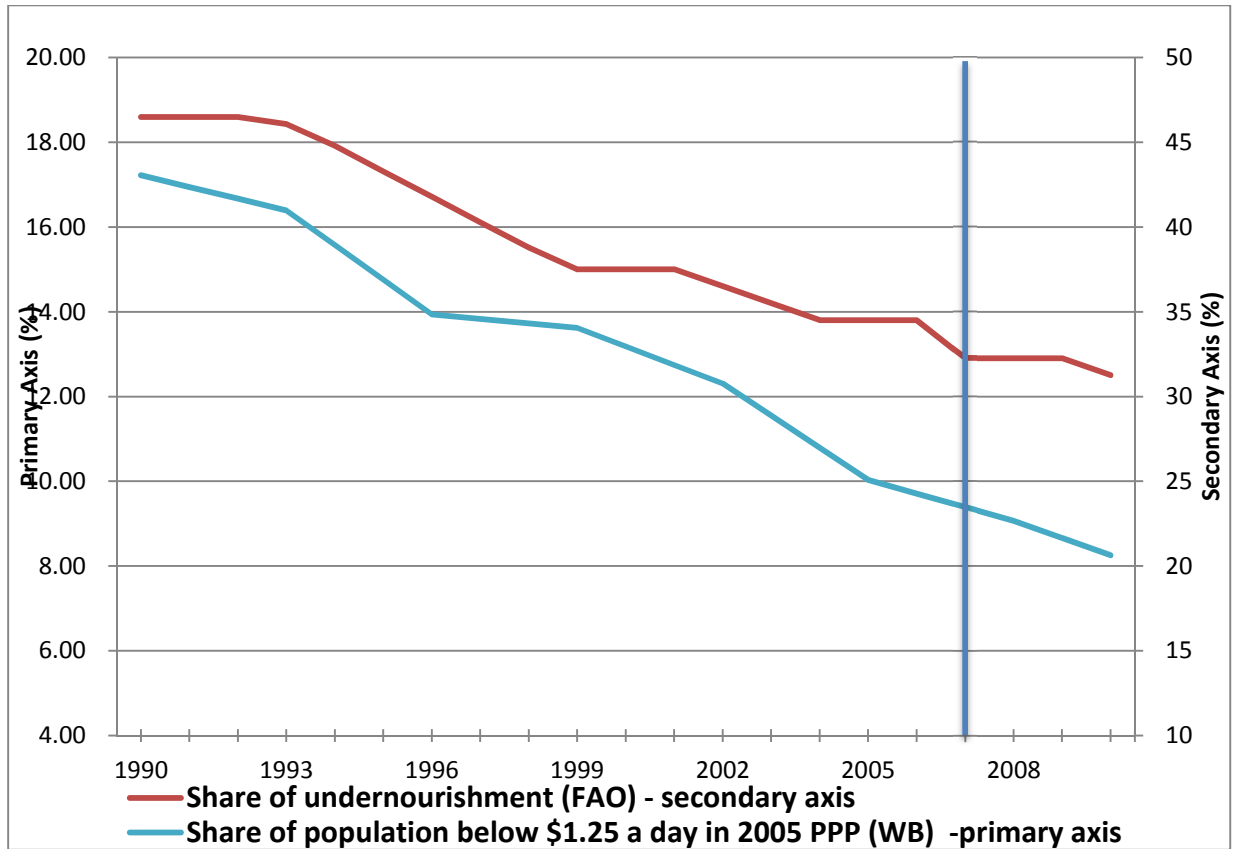


Figure 2.
Overseas Development Aid (ODA) to Agriculture
(% of total ODA commitments)

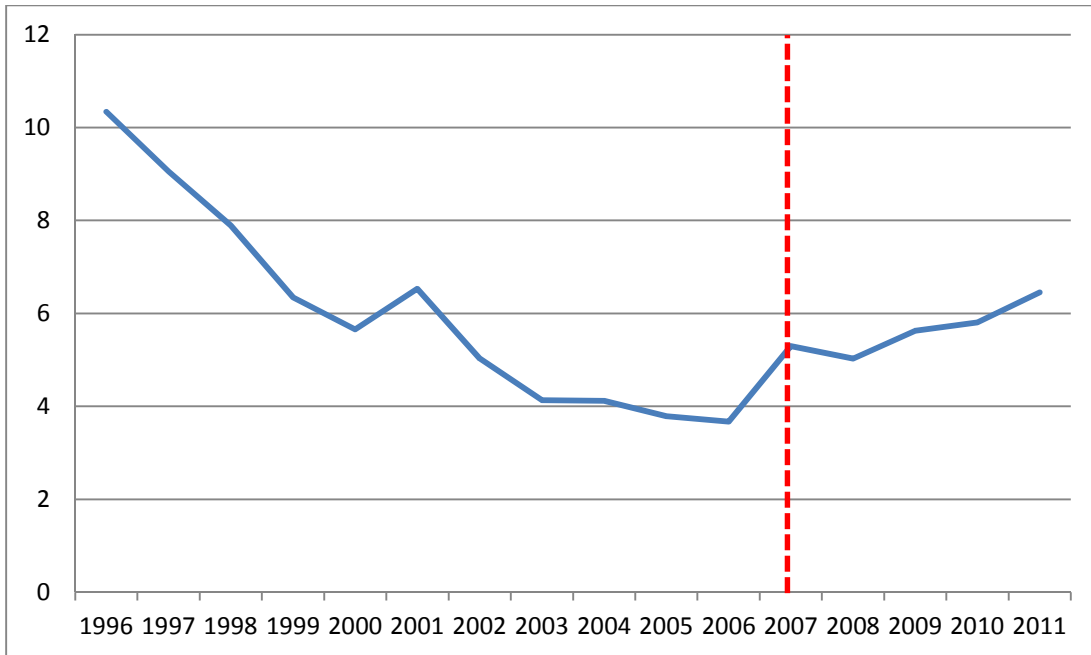


Figure 3.
FAO funding
(as % of voluntary contributions to UN agencies)

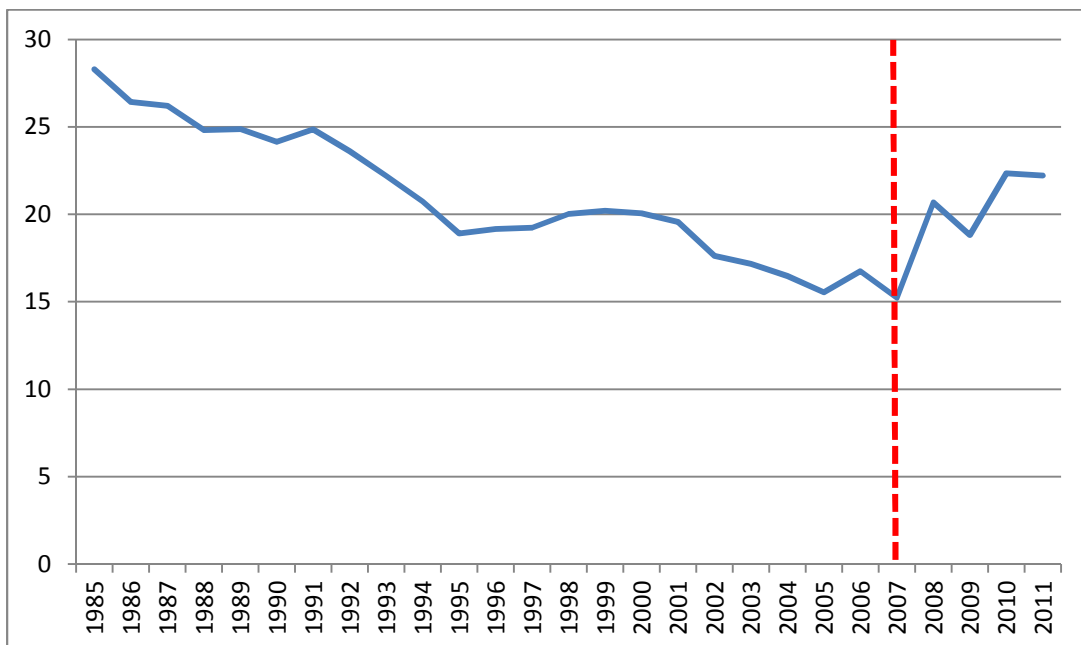


Figure 4.

Food prices and media attention to agriculture and food security

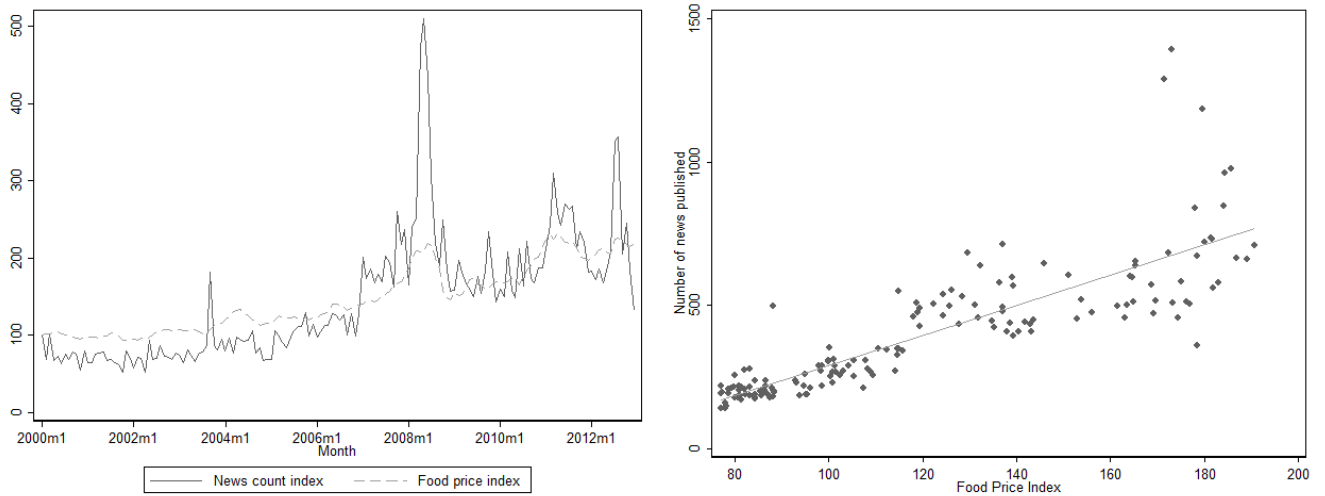


Figure 5.

**Food prices and Communiqués attention to agriculture and food security
in WB-IMF Development Committee**

