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The Impact of the 2010-11 Surge in Food Prices on African Countries in Fragile Situations

Barbara Barungi, Kazuhiro Numasawa, Adeleke Salami and Adalbert Nshimyumuremyi[1]

1 – Introduction

Africa's growth outlook remains optimistic after the strong economic rebound from the global financial crisis. The region experienced an increase in annual GDP growth to 4.8% in 2010 from 3.1% in the previous year and is expected to average over 5% in 2011. The soaring global demand for commodities is arguably a key driver of the enhanced GDP growth during 2010. Prices for oil, minerals, grain and other raw materials continue to rise. In February 2011, the IMF commodity index increased by 4.5% over the previous month, spurred by energy and metal prices. Due to the endowment of such natural resources, many African countries have enjoyed short run gains from these price increases. On the contrary, rising global food prices continue to be a major concern for inflationary trends and increased food insecurity for most countries in the region particularly for net food importing countries.

Globally, 2011 was ushered in with rising food prices and increased volatility. Given the higher plateau of global food commodity pricing in the post-crisis period, food prices are predicted to remain well above their previous trend level before 2008. While the short term impact particularly on poor households requires immediate attention, this may also be a turning point that requires bold policy actions in addressing longer term structural challenges. The continued price increase and volatility will require that social protection and agricultural development measures become the centre of national government programmes and policies in developing countries. There is an opportunity for countries to adjust through adoption of innovative agricultural and trade policy responses so as to benefit in the medium to longer run from the high prices.

Conflict and post-conflict countries are among the most vulnerable to food price increases due to their weak policy management capacities coupled with low levels of crop production, negligible food stockpiles, limited financial resources for purchases in the global market by these economies that are already stretched in dealing with rehabilitation and reconstruction needs. These countries also face the serious policy dilemma of maintaining macro-economic stability while at the same time establishing social protection measures that warrant expansionary fiscal policy reforms.

The purpose of the policy brief is to: (a) examine the impact of the high and volatile global food prices on the most fragile economies in the region; and (b) share the experiences of the Bank in assisting countries respond to food price increases as well as put in place longer term measures for improving food security of regional member countries.

This policy brief is organized as follows. In the first section the recent economic outlook of

[1] Barbara. Barungi, Lead Economist, OSFU; Kazuhiro Numasawa, Agriculture Officer, OSAN; Adeleke Salami, Research Economist EDRE; and Adalbert Nshimyumuremyi, Chief Statistician ESTA.

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fragile states is provided. Next the brief reviews the trends in global food prices and the impact on the region, followed by an examination of the underlying causes for increased vulnerability of food security in fragile states. Thereafter a section that discusses possible policy actions is presented and the final section examines the Bank's response during 2008 – 2010 and recommendations for future action.

2 – Favourable Economic Prospects for Fragile States

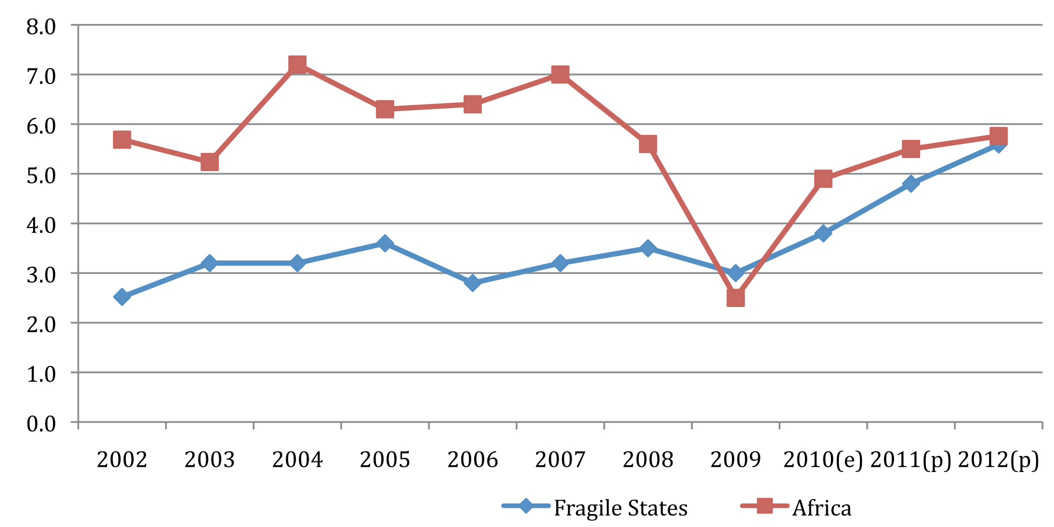
Fragile states are furthest away from meeting the Millennium Development Goals (MDGs) but their growth prospects are improving. In 2009, the average real per capita GDP growth stood at 0.9 % and it is estimated at 2.6 % in 2011. However the underlying country variations are rather striking. For example, in Chad, the chronically unstable security situation and poor business environment have hindered growth and poverty reduction, notwithstanding sizable oil revenues collected since 2003. Following a weak performance in 2009, real GDP was estimated to increase by 4¼ percent in 2010. The Central Africa Republic (CAR) economy bottomed out in 2009 at 2.0% growth rate but prospects have improved with the rise in exports of diamond and wood products, and GDP is projected to increase to 4.0 % from 3.4 % in 2010. In Eritrea output fell by 10 % as a result of food and fuel price increase in 2008 and a severe drought. For Liberia, the pace of economic growth picked up at over 7 % in 2010 and rising commodity prices have led to a rebound in rubber exports; it is also expected that sound macroeconomic performance will continue. In Zimbabwe, economic growth has recovered since 2009 and reached 8.2% in 2010; this is mainly due to adoption of macroeconomic stabilization policies, improved agricultural performance and increased mining output at 8.5 % in 2009 and a record high of 47 % in 2010.

Fragile states as a whole have also shown a much stronger rebound in 2010 and are expected to have a good performance in 2011 and 2012 (Figure 1). However this can be partially explained by the fact that they are starting from a very low base and the strong recovery is linked to increase in both investment and capacity utilization in the early post-crisis period. The rising global prices due to increasing demand across the broad range of commodities oil, metals and minerals and agricultural product have led to high economic growth for several fragile states in the short run. However, growth prospects could be undermined by the rising food and fuel prices. Human development indicators of most fragile states also remain weak (Annex 1).

3 – Global Food Prices : 'High and Volatile'

The recent global trends in food prices are marked with higher levels and increased volatility as compared to the 2008 food crisis and are projected to stay high over the medium and long term (Figure 2). The FAO Food Price Index reached a record high in February 2011, up 2.2 percent from January alone. This is the highest (in both real and nominal terms) in over 20 years (since January 1990, the inception date of the index)[2]. Except for sugar, prices of all other monitored commodity groups recorded gains in February with dairy products and cereals climbing the most. This has led FAO to caution that "while most indicators point to increased cereal

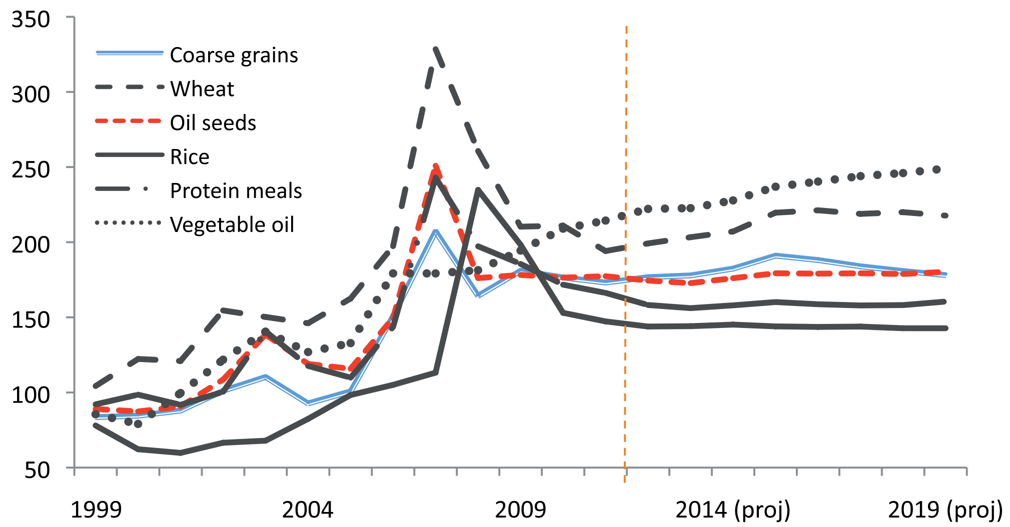
Figure 1: Real GDP Growth



Source: African Economic Outlook, 2011 ; IMF Regional Economic Outlook: Sub-Saharan Africa (2010)
Note: (e) = expected; (p) = provisional

[2] FAO. March 3, 2011. Global Food Price Monitor.

Figure 2: Food prices, 1999- 2019 (actual and projections, indices, 1990 = 100)



Source: Authors' calculations based on the OECD – FAO Agricultural Outlook database. The graph indicates projection between 2011 and 2019.

production in 2011, the projected growth may not be sufficient to replenish inventories, in which case prices could remain firm"[3]. According to World Bank estimates, the food price rises between July 2010 and February 2011 pushed an additional 44 million people worldwide into absolute poverty.

Rising global food prices have been accompanied by their increased volatility (Table 1). Notably, wheat price volatility during this period ranged between 30 and 70 percent. Wheat prices stabilized during 2001 to 2006, albeit at higher levels than in 1990s, but recorded even greater volatility in 2007 - 09. Maize prices have followed the same trend. The increasing food price volatility makes attaining food security in Africa's food importing countries even more challenging. The impact on food exporters is ambiguous. While higher global prices could stimulate agricultural production, price transmission mechanisms in Africa tend to operate with a lag and be impeded by market failures and sometimes even disconnect from world markets.

Multiple factors cause food price volatility, including weather shocks, interest rates movements, inadequate information about demand and supply conditions in the food market, lack of transparency, volatility of exchange rates, 'financialization' (i.e. co-movement between commodity prices), and panic buying and hoarding. Commodity investments by financial institutions and hedge funds may have also contributed to food price instability.

As of March 2011, FAO indicates that among twenty nine countries across the world that require external assistance for food, twenty one are in Africa[4]. With insufficient resources, these twenty one

Table 1: Volatility of Food Prices (relative coefficient of variation, 1991 – 2011)1/

	1991-95	1996-2000	2001-05	**Av. 1991 - 05**	**2005-11**
Rice	22.1	18.2	20.2	20.2	34.9
Soybeans	8.6	20.3	21.8	16.9	26.7
Wheat	…	8.4	12.0	10.2	27.2

Source: Authors' calculations based on the FAO database. 1/ March 2011.

[3] FAO. April 7, 2011. Media Centre.
[4] March 2011. Crop prospects and Food Situation.

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countries are confronted with different types/causes of food insecurity: (i) exceptional shortfall in aggregate food production/supply (Zimbabwe); (ii) widespread lack of access to food (Eritrea, Liberia, Niger, Sierra Leone, and Somalia); and (iii) severe localized food insecurity (Benin, Burundi, CAR, Chad, Congo Republic, Cote d'Ivoire, DRC, Ethiopia, Guinea, Kenya, Madagascar, Malawi, Mozambique, Sudan, and Uganda). Many of those countries are also severely affected by high food and fuel prices. These include countries which are large net importers of cereals and fuels, with generally low per capita incomes, relatively high levels of malnutrition, and for which there is a strong transmission of high international food prices.

The reasons for these critical food insecurity situations include, and are not limited to: insufficient domestic production, extreme weather events such as flood and drought, budget deficits, high food prices and general inflation, high concentration and influx of refugees, civil strife and protracted conflicts.

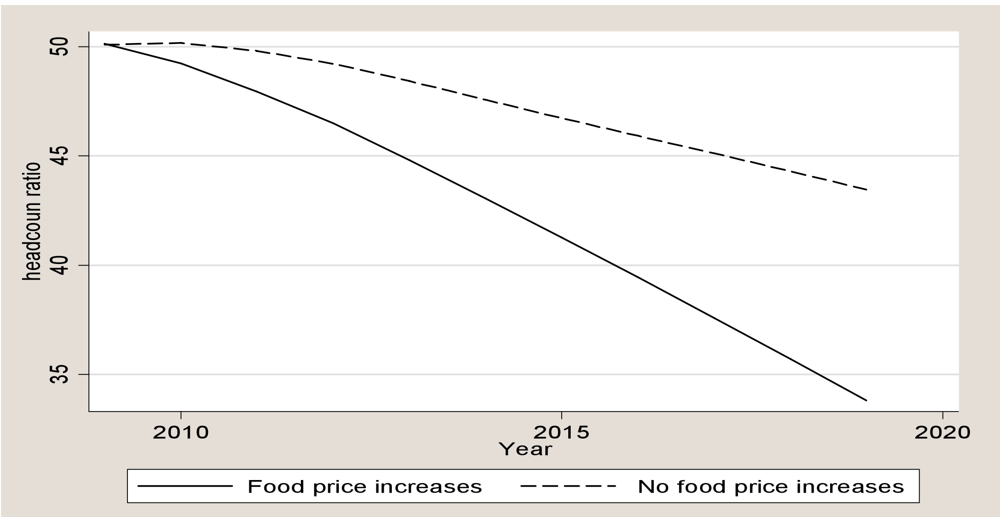
4 – Fragile States: High vulnerability to food insecurity

The vulnerability of fragile states to food insecurity in the periods of high global food prices arises because these states tend to be net importers of cereals and often lack the resources and capacities to deal with food crises. In addition, the peculiarities of the socio-economic conditions as a result of conflict complicate potential interventions due to disintegrated population, which may further deteriorate the poverty impact on large segments of the population. The numbers afflicted by hunger, poverty and malnutrition are bound to be further increased as a result.

The fragile states are low-income food-deficit countries and particularly vulnerable to poverty and rising food prices. Most of these countries had negative cereal balances during the 2009/10 period (Annex 2). Similar outcomes have been observed over the past several years. Notably, cereal balances are substantially higher when imports and stock drawdowns are not included in the definition of food availability (column IX of Annex 2). Increased vulnerability to the current global food price increases in the affected countries is also worsened by their relatively weak macroeconomic situations. Food scarcity in these food importing countries is exacerbated by their inability to finance their large food import bills. This inability is reflected in the widening current and fiscal balances (Annex 3). Given the widened twin deficits, the fragile states face greater constraints and require much more external assistance to mitigate future food security risk.

In some fragile states, the situation is worsened by internal displacement, civil unrest and insecurity which hamper agricultural production and trade, as well as inflow of refugees and returnees which adds pressure to the limited supply. According to FAO, the number of undernourished people in sub-Saharan Africa represents a third of the population. The aggregate numbers mask substantial differences among countries. For example, it is estimated that 6.4 million people in Sudan and 2.4 million in Somalia need food

Figure 3: Path of poverty with and without food price increases in South Sudan



Source: Shimeles, A and A. Verdier-Chouchane (2011), "Poverty situations and prospects in South Sudan", AfDB Africa Economic Brief, forthcoming.

[5] FAO Crop prospects and Food Situation No.1, March 2011.

external assistance due to conflict and rising prices[5]. Conflict, refugees and rising food prices also contributed to food insecurity in the Democratic Republic of Congo.

The poverty and nutritional impact of the surge in food prices is much more difficult to determine without detailed information on household food production and consumption levels. There is some evidence to show that the rising food prices have led to an increased number of households in extreme poverty, but with considerable variations from country to country. The case of Sudan shows that a continuous rise in food prices in South Sudan could make the country lose poverty reduction potential by about 9 percentage points or by about 18% from its level in 2009 (Figure 3). Based on some analysis by the World Bank (April 2011) on balance, the adverse welfare impact on net food buyers outweighs the benefits to net sellers resulting in an increase in the number of poor and in depth of poverty.

5 – Policy Actions

The increasing frequency and magnitude of food price volatility has worsened the food insecurity situation for Africa's poor population. To address this problem in the short-term, increased investment in safety net and social protection are required to reduce vulnerability of the poor, especially smallholder farmers. Such social safety net would allow quick distribution of cash in the event of sudden and steep rises of food prices. Moreover, in the long-term, enhancing agricultural productivity together with mitigating and adapting to climate change should be the primary focus of initiatives to achieve food security. In this context, investing in the following areas is critical to achieve food security in Africa:

- Establishing national social protection measures that improve the health and nutrition of vulnerable households and individuals;
- Removing barriers to trade and especially intra-regional agricultural trade essential for ensuring food security;
- Developing an adequate rural infrastructure (rural roads, water, storage facilities, access to markets, handling and conservation systems, and supply networks) to reduce production cost, improve competitiveness of local producers and enable fast and efficient food distribution in case of emergencies;
- Introducing effective incentives for private investment to increase agricultural productivity through subsidies or public credit guarantees;
- Providing stable and predictable support to effective long-term agricultural research with efficient process and dissemination of research results as well as continuous support for development of human resource and technical capacities to ensure high-quality outputs, adequate technology adoption and applications.

6 – Bank's Response and Lessons Learnt

The Bank has an important role to play in supporting its regional member countries (RMCs) in their efforts to achieve food security. To make its support effective, the Bank has realigned its agriculture portfolio to relevant intervention areas specified in its Medium Term Strategy (2008-12). The Agriculture Sector Strategy (2010-2014) therefore aims to foster greater agricultural productivity, food security and poverty reduction through: (i) improving rural and agriculture infrastructure and (ii) promoting natural resource management and enhancing resilience against Climate Change. The Bank has also leveraged partnerships with other development organizations, to achieve a clear focus and enhanced efficiency based on comparative advantages.

Reflecting these strategies, the Bank provided approximately UA 550 million in agriculture-focused loans and grants to 24 Regional Member Countries (RMCs) during 2008-10 and swiftly provided support to 27 RMCs during 2008-09 in response to the prevailing food crisis among many of African countries through Africa Food Crisis Response which helped more than 2.76 million people as detailed in the below box. The specific objectives of the AFCR included: i) to reduce vulnerability of the poor to high and unstable food prices; ii) to support broad based growth through increased agricultural productivity, market

Box 1: Lessons Learnt From the AFCR

In response to the food security crisis, the Bank Group approved the Africa Food Crisis Response (AFCR) framework in July 2008, an accelerated disbursing mechanism that enabled RMCs expedite their responses tailored in their contexts. It was implemented over one year and provided sizable agricultural inputs and materials including fertilizers, quality seeds, animal feeds, fisheries equipment and other implements worth over UA 113 million as well as UA 297 in budget support/balance of payment to twenty seven RMCs including Djibouti, Burundi, Comoros, CAR, DRC, Guinea, Liberia, Sierra Leone, Guinea-Bissau, Togo, Sao Tome and Principe. An estimated 2.76 million people of whom 33% were female, benefitted from this initiative and it had a significant impact on food production which amounted to more than 8 million tons of various crop production substantially helping food security and nutrition during and even after the crisis. The AFCR revealed that a combination of direct budget support and targeted interventions resulted in a successful rapid response to countries in crisis . The AFCR also contributed to capacity development in agriculture sector and improvement of balance of payments in many of food-importing countries. In spite of its major results, some key lessons from implementation of this initiative were drawn for future actions. One of the main challenges was the weak capacities of countries in project implementation, reporting and monitoring of results. More flexibility on the part of the Bank is required to be able to deliver urgent short term operations without compromising quality. Future programmes of this nature could benefit from sensitization campaigns and increased coordination at both government and Bank levels.

participation, and strengthened government policies for sustainable agricultural development; and iii) to strengthen adequate capacity in Government to ensure an enabling environment for sustainable agriculture growth including by private sector. The Bank has also assisted its RMCs in soliciting additional financial resources in support of food security through the Global Agriculture and Food Security Program -- a multilateral financing mechanism established following a G8 “plus” meeting in L’Aquila in July 2009.

The high and volatile nature of the recent global food price increase highlights the urgency for longer term action on the part of governments and donors alike. Agricultural development and trade policies should not only become centre stage but need to be revisited and properly sequenced within national development strategies.

Fragile states in particular have high vulnerability to food security due certain peculiarities including conflict and resultant weak state capacity. State capacities must be strengthened so as to enable timely response to crises. These countries also require fiscal space for implementation of social protection measures that can be instituted as part of development policy.

The Bank has played a key role in assisting countries that have been previously adversely affected by food crisis and is moving towards enhanced policy advice and support for longer term solutions to promote agricultural modernization, natural resource management and increased trade and regional integration.

annexes

Annex 1: Human Development Indicators

	Population below $1.25	Prevalence of child Malnutrition %of children under 5	Prevalence of under-nourishment % population	HDI	HDI Rank
Burundi	81.3	38.9	63	0.282	166
CAR	62.4	21.8	41	0.315	159
Chad	61.9	33.9	38	0.295	163
Comoros	46.1		51	0.428	140
Congo, Dem.Rep.	59.2	28.2	75	0.239	168
Congo, Rep.	54.1	11.8	21	0.489	126
Cote d"Ivoire	23.3	16.7	14	0.397	149
Eritrea	…	34.5	66	…	…
Guinea	70.1	22.5	16	0.340	156
Guinea Bissau	48.8	…	31	0.289	164
Liberia	83.7	20.4	38	0.300	162
Sao Tome and Principe	28.4	…	5	0.488	127
Sierra Leone	53.4	28.3	46	0.317	158
Togo	38.7	22.3	37	0.428	138
Zimbabwe	…	14.0	39	0.140	169

Source: UNDP, Human Development Report , 2010 ; World Bank, World Development Report, 2011.

Annex 2: Cereal Balance (thousand tons), 2009/10

Country	Cereal Production	Cereal Imports (contracted or delivered)	Possible Stock Draw Down	Cereal Exports	Cereal Availability	Consumption (Food)	Consumption (Non-Food)	Requirements	Cereal Balance*	Cereal Balance**
	(I)	(II)	(III)	(IV)	V=(I+II+III)-(IV)	(VI)	(VII)	VIII=(VI+VII)	IX=(I-VIII)	X=(V-VIII)
Central Africa Republic	192	19	14	0	225	229	21	250	-58	-25
Chad	2641	0	0	300	2341	1616	354	1970	671	371
Congo, R.	21	121	2	0	144	344	13	357	-336	-213
Congo, D.R.	1571	300	0	0	1871	1877	303	2180	-609	-309
Côte d'Ivoire	1422	747	0	20	2149	2233	246	2479	-1057	-330
Eritrea	265	216	8	0	489	537	58	595	-330	-106
Guinea	2675	404	0	244	2835	1857	469	2326	349	509
Liberia	293	260	40	30	563	466	69	535	-242	28
Sierra Leone	918	53	0	75	896	552	138	690	228	206
Somalia	337	0	10	0	347	661	58	719	-382	-372
Sudan	5557	0	400	50	5907	6092	1324	7416	-1859	-1509
Zimbabwe	1627	200	52	0	1879	1764	345	2109	-482	-230
Total Fragile States	**17519**	**2320**	**526**	**719**	**19646**	**18228**	**3398**	**21626**	**-4107**	**-1980**

Source: FAO GIEWS 2010

Technical Note:
Cereal Availability is defined as domestic production plus food imports/contracted or received and Possible Stock Draw Down minus exports.
Cereal Balance* is defined as domestic production, minus food requirements (domestic food and non-food consumption). Accordingly, a negative value represents a deficit, while a positive value represents a surplus. or
Cereal Balance** is defined as domestic production plus imports and stock drawdowns, minus food requirements (domestic food and non-food consumption). Accordingly, a negative value represents a deficit, while a positive value represents a surplus.

Annex 3: Current and Fiscal Balances, 2008-2011

Description	Current account % GDP				Budget balance % GDP			
	2008	2009	2010	2011	2008	2009	2010	2011
Central Africa Republic	-10	-9.2	-9.1	-9.4	-0.4	0.1	0.5	-0.4
Chad	-10.3	-31.8	-26.7	-22.8	5.2	-10.8	-9.6	5.2
Congo, R.	-2.5	-17.5	-2.9	-8.8	26.1	17.0	24.1	26.1
Congo, D.R.	-15.9	-16.4	-4.8	-8	-2.4	-1.6	8.5	-2.4
Côte d'Ivoire	2.1	-3.5	-7	0.9	0.6	1.1	-1.9	0.6
Eritrea	-5.5	-4.8	-3.3	-2.7	-25.4	-15.5	-10.9	-25.4
Guinea	-6.9	-9.3	-8.3	-10.2	-1.2	-1.5	-6.1	-1.2
Liberia	-53.9	-52.8	-63	-56.4	1.6	-1.6	-0.7	1.6
Sierra Leone	-9	-9	-8.8	-8.7	-5.1	-4.9	-4.8	-5.1
Sudan	-9.1	-9.2	-8.5	-7.5	-1.4	-3.7	-2.8	-1.4
Zimbabwe	-29.5	-21.4	-19.9	-19.6	-4.0	-3.8	-11.5	-4.0
Africa	3.8	-2.9	0.0	0.6	2.2	-4.4	-3.3	2.2

Source: African Economic Outlook (2010).

ABBREVIATIONS

AFCR Africa Food Crisis Response
GDP Gross Domestic Product
CAR Central African Republic
DRC Democratic Republic of Congo
FAO Food and Agriculture Organisation
HDI Human Development Index
IMF International Monetary Fund
RMCs Regional Member Countries
UA Unit of Account