



# ISSUES IN BRIEF

## Food Crises in Developing Countries: The Role of National Governance



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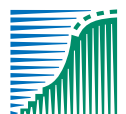
The recent global food shortage hit with little warning and plunged an extra 75 million people into poverty and food insecurity (FAO 2008a). The reasons for this food crisis varied from country to country, but everywhere it was accompanied by high food prices, steadily rising since 2000. The impact of these escalated prices became most visible during late 2007 when the price of corn rose by 31 percent, rice by 74 percent, soya by 87 percent and wheat by a massive 130 percent in a single year, March 2007-March 2008 (UNDP 2008). In the case of wheat, the price of a ton of the commodity climbed from US \$105 in January 2000, to \$167 in January 2006, to \$481 in March 2008.

The maximum brunt of this price hike was borne by developing and least developed countries. According to the Food and Agriculture Organization (FAO), in Côte d'Ivoire the price of rice more than doubled in March 2008 from what it was a year earlier. In Senegal, by February 2008 the price of wheat had reached a level twice as high as it was in February 2007. In the Philippines, a major rice-producing country, the cost of rice increased by 50 percent during 2008. In Sri Lanka, the price of rice doubled between March 2007 and March 2008, and in Bangladesh, another major producer of rice, it increased by 66 percent in the same period (FAO 2008b).

High international food prices posed two direct problems in 2007 and 2008: the world's poor found they could no longer afford to buy food and the governments of developing countries saw their popularity plunge because of food insecurity. Many of these governments were facing fuel and fiscal crises before the food crisis hit and they found themselves in a difficult

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situation; they had to choose whether to put their scarce fiscal resources toward alleviating the fuel crisis or the food crisis.

But the severity of the food crisis in ‘apparently’ food self-sufficient countries — such as Pakistan, Indonesia, India and Egypt — showed that food security could be as much an issue of food access and availability (that is, socio-economic access to food) as it is an issue of food production. Even if food production in these countries should not have been an issue, the

absence of good governance ensured that food did not reach all sections of society at a uniform price.

In order to understand this nexus between food insecurity and governance, Pakistan may offer a classic case study. Despite a bumper crop of wheat in 2006-07 (23.3 million metric tonnes), the prices of wheat flour in Pakistan doubled in the next fiscal year. So, what went wrong? And what does the Pakistan case study offer us in terms of lessons for how to deal with future food crises in developing countries?

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### Understanding the Global Price Hike

Before delving into the specific case of Pakistan, let us look at the usual reasons given for why prices of food soared in the international marketplace in the first place. Some of the reported reasons for recent global food crisis include:

**Weather and climate-related disruptions in crop production:** Initial reasons for the food price hike that started in late 2006 included several distinct weather-and-climate-related incidents that caused disruptions in crop production in major grain producing nations. Perhaps the most influential event was the extended drought in Australia that caused the annual rice harvest to fall by as much as 98 percent from pre-drought levels. Likewise, the Australian production of wheat — which previously could be up to 25 million tons in a good year (most of it being available for export) — dropped to 9.8 million tons in 2006 (*The New York Times*, 2008).

Floods in South Africa, another major grain exporter, also affected the global food exportable surplus (Suleri 2008) and cyclone Nargis in Myanmar had adverse effect on rice exports. The FAO had previously estimated that Myanmar would export up to 600,000 tons of rice in 2008. But during the first three quarters of 2008-09, the country was only able to export 150,000 tons of rice (*People’s Daily Online*, 2009).

**Stock levels:** The gradual reduction in the level of grain stocks, mainly cereals, since the mid-1990s, is another supply side factor that presumably is one of the major contributors to recent food crisis. Indeed, since the previous high-price event in 1995, global stock levels have declined, on average, by 3.4 percent per year as demand growth has outstripped supply. Production shocks at recent low stock levels helped set the stage for rapid price hikes (FAO, 2008a).

Food stock levels have been affected by changes in structures and functioning of food markets in the WTO regime, as well as reforms prescribed by international financial institutions. The role of the state is being minimized in maintaining buffer stocks by factors including: the phasing out of state and para-state trading bodies; controlling food trade through tariffs and duties; restricting inter- and intra-country movement of food stocks; and rationing of food commodities. These factors in major food producing countries, coupled with the high cost

of storage and increased competition with emerging food exporting countries, led to reduced stock levels (SDPD-UNDP, 2009).

Indeed, there is a statistically significant negative relationship between the stocks-to-use ratio (the ratio of stocks at the beginning of the season to utilization during the season) and the average cereal prices during the same season. This means that tight markets at the global level at the beginning of the season tend to put upward pressure on prices. As stocks reach very low levels, the absence of buffer supplies means that prices may rise precipitously under either a demand or supply shock (FAO, 2008a).

**Rising oil prices:** The third major trigger for the food price hike was reported to be the rise in oil prices from \$22-28 per barrel in 2005 to \$140 a barrel by July 2008. This dramatic rise increased the price of fertilizers, raised the cost of food transport and increased the input cost of energy-dependent intensive agriculture to such an extent that farming became a financially non-viable option for many subsistence and small farming families who were forced to leave their farms and work as unskilled laborers in nearby towns and cities.

**Biofuels:** Besides this direct impact, the rising cost of oil had an unintended consequence: it diverted a major chunk of global grain production to biofuels. Once oil prices topped \$60 a barrel, biofuels became more competitive, creating a direct competition between grains for food and grains for cheaper fuel. As a result, approximately 100 million tons of grain was redirected in 2007-08 from food to fuel (total worldwide grain production for 2007 was just over 2000 million tons.). As farmers in developed countries devoted larger parts of their crops to fuel production compared to previous years, land and resources available for food production decreased correspondingly. As a result, less food became available for human consumption, especially in developing and least developed countries.

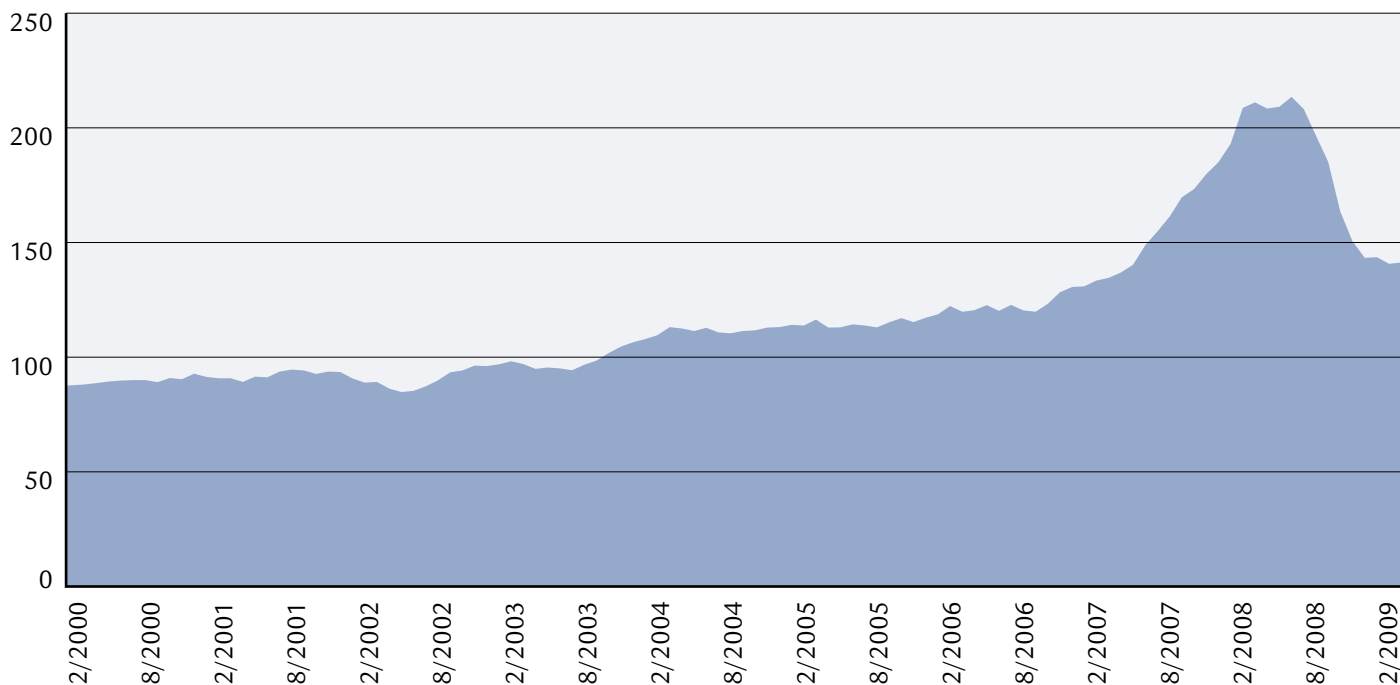
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**Increasing demand by rising middle-class of India and China:** Some analysts and political leaders, including former American President George W. Bush, blamed an increasing demand for a more varied diet (especially meat, one kilogram of beef requires seven kilograms of feed grain) across the expanding middle-class populations of China and India as the major cause of the global food crisis. Diversion from starches and carbohydrates to animal protein would result in an increased import of feed grains. However, figures from FAO don't support this argument. Since 1980, the imports of cereals in India and China have been trending down, on average by four percent per year, from an average of 14.4 million tonnes in the early 1980s to 6.3 million tonnes over the past three years. The FAO figures further reveal that food utilization growth in China and India was much slower compared to the rest of the world, indicating no major influence of rising middle-class — and their so-called changing diets — on the supply and prices of food.

**The American commodity speculation:** Speculation on the prices of commodities in major American stock exchanges also had a worldwide impact on food's pricing mechanisms. Financial speculators, smelling the sub-prime mortgage crisis in the US and seeking quick returns on their money and that of their clients, shifted billions of dollars from equities and mortgage bonds and invested them into buying the futures in food and raw materials. This

## Food Price Index February 2000 – February 2009

Several factors led to a dramatic spike in global food prices from 2006 to 2008.



Source: Food and Agriculture Organization

gave a shot in the arm to the prices of commodities across the globe, at a time when they were already in short supply.

All of the above mentioned factors, coupled with falling world food stockpiles, contributed to the dramatic worldwide rise in food prices during 2006 through 2008.

It is worth noting that growth in population has had hardly any effect on the food crises. In fact, growth in global food production has been greater than population growth worldwide even in lean harvest years. As a result, food availability per person, which increased dramatically between 1961 and 2005, has not changed in the 2006-2008 timeframe.

There were, however, some other contributing factors that made things worse once the price of food rose. Panic hoarding, speculative buying, and export controls levied by food-producing countries to try and preserve food for their own people were the most significant of these factors. The net result was less food was available to be exported to countries which rely on food imports, leading to further price hikes.

### Food Security-Governance Nexus: The Case of Pakistan

As mentioned earlier, Pakistan had produced enough wheat (its staple diet) in 2006-07 that could satisfy all its domestic needs for that year, but still the country experienced one of the worst food inflations (32.3 percent), the highest in the last 30 years (Government of Pakistan, 2008). The price of wheat and wheat flour nearly doubled during 2007-08 resulting in food riots in certain parts of Pakistan. Even today food inflation is in double digits, standing at 29.8 percent for the period July 2008-January 2009 (Government of Pakistan, 2009).



It is amazing that Pakistan was the sixth largest wheat producer and among the top ten wheat exporters in 2006-07 (Daily Times, 2008). The country was the ninth largest wheat exporter with a share of 1.5 percent in global wheat exports (China with a share of 2.3 percent was the eighth largest wheat exporter, whereas Ukraine with a share of 1.4 percent is the tenth largest exporter). With a 'bumper' wheat crop in Pakistan, should the fall in Australian wheat production have affected Pakistan's domestic market? The answer is "no". What about increased use of maize for production of biofuels in the US? Could it affect Pakistan's wheat price? The link is neither visible nor convincing as maize is not one of the staple foods in Pakistan. The rise in the price of oil is a real challenge, and Pakistan's economy — like that of all other countries — was adversely affected during recent fuel price hikes. Still, this historic high fuel price does not seem to be a limiting factor for wheat production during 2007.

In trying to understand the reasons behind Pakistan's food crisis, we should remember the refrain from Nobel prize-winning economist and former Pardee Visiting Professor Amartya Sen: "There is no such thing as an apolitical food problem." While external factors and events may trigger food crisis, it is political action or inaction that determines its severity, and often even whether or not a famine will occur.

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For example, look at the political actions leading to the wheat crisis in Pakistan. After calculating its domestic requirements (around 19.5 million metric tonnes), the Government of Pakistan decided to allow export of 1.5 million tonnes of wheat at US \$225-232 per tonne in April and May 2007. Very soon, however, Pakistan started facing shortages of wheat and the government had to import one million tonnes of wheat in December 2007 at US\$ 380-400 per tonne, exclusive of transportation costs. The shortage of wheat and subsequent import at higher price resulted in wheat hoarding, panic buying and further hoarding. However, even this phenomenon does not clearly reveal the fate of the bumper wheat in Pakistan.

The question arises: where did all the wheat go? In the absence of effective social safety nets, the Government of Pakistan subsidizes wheat flour through procurement of wheat at a pre-announced price and then supplies it to wheat flour mills at a subsidized price. During 2007, the world price of raw wheat (exclusive of transportation cost and in bulk purchases) was almost US\$ 4 per 10 kilograms (kg). The Pakistan government had set the retail price of milled wheat at US \$2.6 per 10 kg. Such large difference between the domestic prices and the international ones led to massive smuggling of wheat to Afghanistan, which has always been dependent on the wheat supply from Pakistan. In that particular year, its dependence further increased as Afghanistan's domestic wheat production suffered badly in 2007 due to an extended dry season.

But even the smuggling cannot account for the whole of the problem. As mentioned earlier, the government agencies procure part of wheat from farmers after the harvest and then supply it to flour mills on subsidized prices during the rest of the year. The procurement price, if announced before the sowing season, helps farmers make an informed decision about their future cropping plan and may serve as an incentive for more production.

Like any other year, the Punjab Food Department (the department responsible for maintaining wheat reserves in Punjab province, 'the bread basket' of Pakistan) started issuing subsidized

wheat to flour mills at rupees (Rs.) 480 (US \$8) per 40 kg from 15th September 2007. By that time, flour millers as well the food department had the information that minimum procurement price for the next crop would be more than Rs. 480 per 40 kg. In actual terms, the government announced that the minimum procurement price for wheat to be procured from April 2008 would be Rs. 510 (US \$ 8.5) per 40 kg; this price was subsequently raised to Rs. 625 (US\$ 10.41) per 40 kg in February 2008.

One needs not be a genius to guess that flour millers would have made a fortune by buying subsidized wheat and selling it back to the Food Department without milling it in a matter of just months. It was almost Rs. 350 (US\$ 5.9) per bag of 100 kg that they earned in the process.

While various government agencies were claiming that they were releasing subsidized wheat to flour mills, a large part of that wheat was not being milled into wheat flour. Again, a large chunk of what was getting milled was being smuggled to Afghanistan.

The situation got worse after the assassination of former Prime Minister Benazir Bhutto in December 2007. Her assassination was followed by a surge of public protests and political riots leading to disruption (and in many cases suspension) of intercity public and goods transportation for many days. This further intensified the crisis.

### Global and regional per capita food consumption (kcal per capita per day)

Region	1964–66	1974–76	1984–86	1997–99	2015	2030
World	2358	2435	2655	2803	2940	3050
Developing countries	2054	2152	2450	2681	2850	2980
Near East and North Africa	2290	2591	2953	3006	3090	3170
Sub-Saharan Africa <sup>1</sup>	2058	2079	2057	2195	2360	2540
Latin America and the Caribbean	2393	2546	2689	2824	2980	3140
East Asia	1957	2105	2559	2921	3060	3190
South Asia	2017	1986	2205	2403	2700	2900
Industrialized countries	2947	3065	3206	3380	3440	3500
Transition countries	3222	3385	3379	2906	3060	3180

<sup>1</sup>Excludes South Africa

Source: FAO, 2002

### Averting Future Crises

It is important to note that higher food prices have powerful distributional effects; they hurt the poorest people the most. This is true both among countries and within countries. Food inflation led to riots not only in Pakistan but also in Haiti, Cameroon, Indonesia, Burkina Faso, Philippines and Egypt. The exact nature of the domestic triggers differ by country, but in each case national mal-governance was a confounding factor.

At the international level, global aid and bilateral agencies were trying to play their role but were faced with resource constraints. At the national level, the governments did try to meet the demand-supply deficit either through imports, through putting a ban on food exports,

through food aid, or by providing subsidized food through various public social safety nets, all with limited or nominal success. Apart from resource constraints at global level, there was another factor behind failure of international responses to food crisis: international responses work only when countries are able to meet their governance pre-requisites. Global governance institutions cannot always overcome the challenges offered by national governance institutions, and certainly not when it comes to socio-economic access to food.

Proponents of market driven development were of the view that high international food prices would become an opportunity, at least for food producing countries such as India, Pakistan, Indonesia, and Egypt who could have transferred, in theory, high food prices to local markets benefiting their farmers thus reducing the rural poverty. But partly due to governance problems, most of the farmers in the developing countries could not benefit from this opportunity. The rest of their failure can be explained in terms of the high cost of production or the lack of timely access to inputs – again issues that need to be tackled through effective governance.

It may not be easy for developing countries to put their own governance systems in order in the short and medium term, but in the long term it is imperative. Immediate actions on managing food crises as they arise are necessary, but they can never be sufficient in and of themselves unless the problems of mal-governance are tackled. Doing so will also have multiple societal benefits since good governance breeds less crises, not only in food availability but for a whole range of other social and economic needs.

Global food crises are ‘global’ because they happen across countries and in enough countries to merit that label. However, the solution to these crises has to combine global food governance with national, and sometimes sub-national, food governance. The key lies in the realization that food is not simply a supply problem but also an access problem. Therefore, the solution to food challenges lies not only in improving supply, but in improving access. And that requires better food governance at all relevant levels: global, national, sub-national.

Here is the lesson that the world in general and countries like Pakistan in particular should draw from the soaring food prices: improve national food governance in the short run and sustain it in the medium and long term; and make long-term investment in the food supply chain at all levels. After all, it is the political action or inaction that determines whether a famine will occur or not. ●

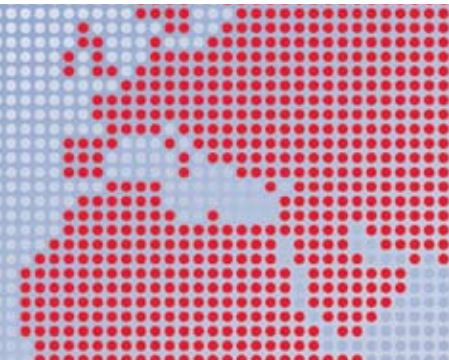
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