Lessons from the last global food crisis: Plan now for the next crisis

The latest FAO food supply projections suggest that global cereal prices are stabilising. The FAO, in its *Cereal Supply and Demand Brief* of 9 May 2013, predicted that 2013 will see strong growth in global production of wheat, coarse grains and rice production. All the forecasts are based on the assumption of "more normal weather conditions than in 2012". If this is realised, FAO forecasts that wheat production could be 5.4% above last year's level and close to the 2011 record peak, while coarse grains could be as much as 9.3% higher than their 2011 peak. The forecast for rice remains tentative, but the current expectation is for the harvest to be 16 million tonnes higher than in 2012, with particularly large increases expected in India and Indonesia.

Score sheet for the last crisis: Must try harder

Despite this news it is only prudent to assume that, although a new global food crisis is not imminent, price hikes will arrive in due course. And there is little evidence that the ACP states are well prepared.

Indeed, the evidence of the 2007–08 crisis is that the efforts of African governments to protect their populations from high world prices were largely unsuccessful. The United Nations University World Institute for Development Economics Research (UNU-WIDER) has coordinated a series of 14 case studies, 8 of them in Africa, describing and analysing how governments responded to the 2007–08 crisis. It has published these country studies and also produced two synthesis reports based on the material collected.

The UNU-WIDER summary report, 'A cacophony of policy responses', shows that there were few clear successes in Africa, despite most countries taking measures that "exacted a high fiscal cost" and despite their adopting a "remarkable diversity" of policies. It questions "why governments continue to meddle in food markets despite evidence that such interference is welfare-reducing".

The report recognises that this combination of high cost and low effectiveness is a particular problem for poor countries that cannot afford the permanent 'safety nets' that some of the middle-income countries reviewed deemed sufficient to protect their vulnerable populations during periods of high food prices. However, one finding offers the prospect of a more cost-effective response next time, namely that "initial food security impact assessments significantly overstated the problem and this sensationalism may have increased the pressure felt by developing country governments." If this current period of relative stability can be used to understand better how vulnerable groups are affected when world prices rise and how these pressures can be offset *effectively* and at a sustainable cost, the response next time around could be more developmentally supportive.

Interveners, dabblers and observers

The WIDER project divides its 14 case studies into three groups. The first (and largest) it labels as "the interveners". Five of the eight members of this group are ACP states: Ethiopia, Kenya, Malawi, Senegal and Zambia. The other three are China, Egypt and India. The second group comprises just two states – South Africa and Brazil – and is dubbed "the observers". The third group of four states, described as "the dabblers", comprises two ACP states (Mozambique and Nigeria) plus Bangladesh and Vietnam.

The labels attached to each group neatly summarises their policy stance. The "interveners" made strenuous efforts in a wide range of policy areas to respond to the 2007–08 food crisis. The "dabblers" intervened occasionally and, often, without any clear compelling logic. The "observers" largely abstained from taking special actions in response to the crisis – but as the report observes, these are middle-income states in which normal safety nets may have been considered more robust than those of the poorest states.

Price controls were costly and ineffective

The most common response in all of the "interveners" was price control, but only in China and India did it have much impact. Despite "tremendous efforts", prices in the other states "spiralled out of control". A wide range of factors accounted for this failure including "poorly formulated policies, lack of funding, flawed implementation, or poor timing or co-ordination". In many cases "market participants" (i.e. farmers, traders and other intermediaries) may have exacerbated price movements.

But, of course, the situation might have been even worse without the action. The reports note that poor domestic harvests often exacerbated the problem. The critical point is the cost. Governments basically ran out of funds during the 2007–08 food crisis. Without dramatic changes on the funding front, they will probably do so next time as well. So finding more sustainable measures is critical.

Trade measures also had limited impact

Although not quite so universally ineffective in Africa, banning exports was problematic in most cases. Of the "interveners", only Senegal failed to ban exports (though Kenya is reported not to have done so until *after* the crisis was over and world prices were collapsing). The reports on Kenya, Malawi and Zambia (as well as Egypt) indicate that the effectiveness of the bans was reduced by informal cross-border trade (which has also been confirmed by other studies – see *Agritrade* article 'High production potential in East Africa and barriers to intra-regional trade', 13 June 2013) and by producers/intermediaries storing grain until the lifting of the ban.

All of the "interveners" sought to put more grain onto the market from domestic stocks and, in half the cases, from imports. The results were often unclear because the quantity supplied may have been insufficient "to have more than a marginal price effect". One of the cases studied – that of Malawi – argues that government procurement efforts had the effect of "*exacerbating* rather than ameliorating" price increases of maize. Part of the problem may have been that governments often both bought and sold grain and "it is unclear if these actions were undertaken simultaneously so that increased procurement neutralized the downward price pressure exerted by releasing additional grain."

Tinkering with import and sales taxes was also relatively ineffective, even though three-quarters of the "interveners" tried it. Tariffs were generally low to start with, so further cuts could not dampen import prices by very much, and value-added tax (VAT) was levied on few food items.

All of the African "interveners" imposed price controls and/or subsidies. The case study authors "report major difficulties in administering price controls" except in Ethiopia (where enforcement was rigorous). Subsidies to millers to keep prices down were tried by Ethiopia, Kenya, Senegal and Zambia (plus Egypt), but all except the first experienced problems, "especially the problem of millers receiving subsidies but failing to pass benefits through to consumers". In Ethiopia a monitoring task force oversaw the passing on of the subsidies to consumers.

Domestic support was increased

The "interveners" also took a wide range of steps to support domestic food production. At the core of these were input subsidies and price supports, though many other actions (for example to improve farm productivity) were also implemented by the various governments. Most of the programmes were already well-established when the crisis hit, and so formed an obvious vehicle for action.

Apart from Ethiopia and Egypt, all of the "interveners" increased input subsidies, with Kenya (and India) also expanding farm credit. All of the "interveners" except Ethiopia, Senegal and China increased their price supports to farmers. Malawi, for instance, more than doubled its maize producer price for 2007/08. Even so, competition with the private sector meant that governments failed to meet their procurement targets. Zambia initially increased the maize price by 16%, then had to raise this to 33% in order to compete, and still had difficulties. The crisis also "elicited a dizzying array of safety net policies and five of the eight interveners are reported to have made adjustments in an effort to mitigate the harmful effects of food price increases".

Overcoming the problems next time

The WIDER report does not recommend what governments *should* have done, but clearly major lessons need to be learnt. It considers that some policies were implemented more effectively in India and China than in Africa, and argues that this suggests that more attention needs to be given to a realistic assessment of implementation capacity rather than focusing exclusively on the assumed effects (for good or ill) of the policies to be pursued. The lack of physical and institutional infrastructure in many African countries leading to non-optimal outcomes has been well documented (see *Agritrade* articles 'Barriers to intra-regional agricultural trade in West Africa reviewed', 3 June 2013 and 'Farmers face more barriers in Africa than elsewhere', 6 April 2013). Policies are required that will work even given these challenges.

The WIDER finding that predictions of the effects of the crisis were often exaggerated is an important one. Dealing with it goes hand in hand with improving institutional infrastructure so that markets become better integrated and, especially, governments have a better understanding of the ways in which such "external shocks" are transmitted to vulnerable groups. Had government objectives been more modest and more focused in the last crisis, the effects of their policies would have been less stressful fiscally and might have had more than the marginal effect that, in the event, many of them had.

Reducing vulnerability is key

Building up the production base and more secure safety nets is even more important, although – as the reports note – the poorer the country, the more difficult this is to achieve (but the more necessary). All of the "observers", which appear to have weathered the crisis at least as well as the "interveners", were relatively richer and had better-established permanent safety nets in place. The more that governments and the international community can increase African agricultural production before the next crisis hits, the better countries will be placed to deal with new shocks.

In this respect, the African Union, FAO and Brazil's Instituto Lula jointly hosted a high-level meeting in Addis Ababa from 30 June to 1 July called 'New, unified approaches to end hunger in

Africa'. Speaking to ministers and senior delegates from five African Nations who met in Rome on 22 April to prepare for the meeting, FAO Director-General José Graziano da Silva spoke of intensifying efforts to end hunger in Africa and of the "enormous window of opportunity" presented by "capitalizing on the successes of the many African countries who have already found solutions for food insecurity and malnutrition" and on the "unprecedented political commitment of governments and the African people to end hunger".

Summarising the discussions at the end of the meeting, Mr da Silva identified the seven "essential" components for achieving food security: "1. Political will. 2. The creation of local markets. 3. Promoting rural development, including storage and transport infrastructure. 4. Recognising that small farmers are not part of the problem but part of the solution.5. Awareness that increasing agricultural and livestock production is not enough to pull people out of poverty: social protection is needed too. 6. Coordination and governance is fundamental in implementing actions. 7. Build resilience rather than just address immediate needs."

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