

Vulnerability to hunger and policy responses in an era of global instability: southern Africa and the '3 Fs Crisis'

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Overview

- '3 Fs Crisis' – **Food, Fuel and Finance** – 2007-09
- Talked up as 'Perfect Storm' – Global Crisis Response Fund created
- Temporal and spatial disaggregation suggests less apocalyptic sequence with varying outcomes depending on local circumstances
- Question: is over-the-top over-reaction helpful for the continuous task of tackling chronic extreme poverty?
- Diverts resources and energies into rapidly disbursed funding of activities of dubious long term value.

The '3 Fs Crisis': food, fuel & finance

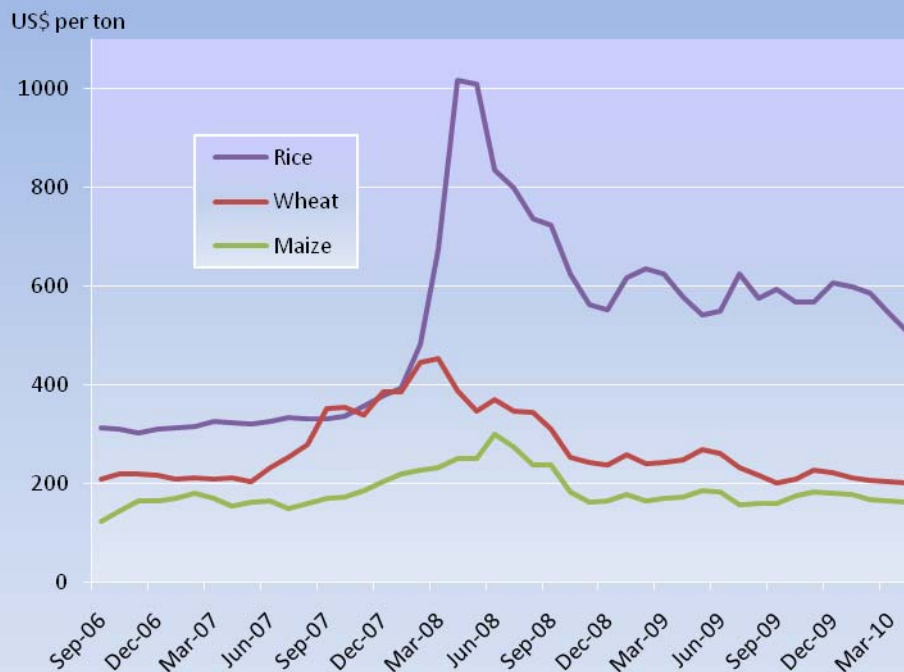
- **Food:** sharp rise in world grain prices, mid-'07 to mid-'08
 - wheat & maize doubled, rice tripled
- **Fuel:** concurrent spike in world oil and fertiliser prices
 - oil doubled, urea tripled, DAP quadrupled
- **Finance:** mortgage crisis leading to 2008 banking collapse
- Dire predictions:
 - new era of global food scarcity, ending 30-year price decline
 - poorest countries & poorest people will be hit hardest
 - WB: poverty headcount to rise by 100m (30m in Africa)
 - FAO: crisis to blame for 75m+ rise in undernourished

The rush for donor funding

- WFP appeal for extra US\$750m for higher procurement costs (met by May'08)
- *FAO Initiative on Soaring Food Prices*: appeal for US\$1.7b for seeds, tools, fertiliser (only a fraction met)
- *WB Global Food Crisis Response Program*: US\$130m for farm inputs and safety nets
- *UN/WB/IMF Comprehensive Framework for Action*: short term food & nutrition, long term resilience building
- A year later: *G8 L'Aquila Food Security Initiative* promises to address impacts of the crisis on poor countries

What happened after prices peaked?

Figure 1: World cereal prices, Sep-06 to Apr-10

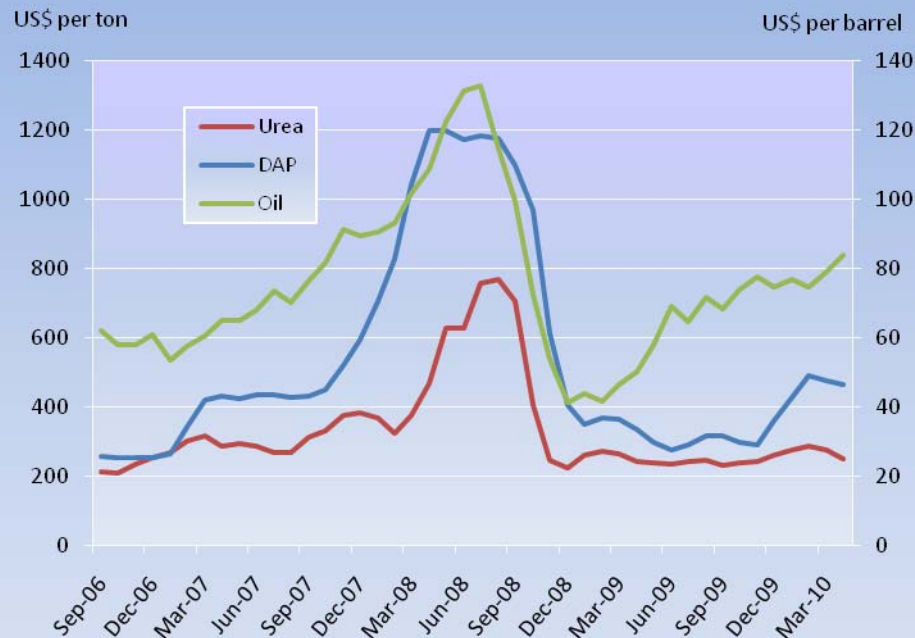


Rice - Thai white milled, 5% broken, FOB Bangkok
Wheat - USA No. 2 Hard Red Winter (Ord) FOB Gulf
Maize - USA Yellow No.3, FOB Gulf
Source: UNCTAD Commodity Price Bulletin

- **Rice:** steep fall, levelling above pre-crisis levels
- **Wheat:** return to pre-crisis levels by Dec'08
- **Maize:** return to pre-crisis levels by Dec'08

What happened after prices peaked?

Figure 2: Recent world fertiliser and crude oil prices



DAP - (diammonium phosphate), standard size, bulk, spot, f.o.b. US Gulf

Urea - bagged, spot, f.o.b. Black Sea

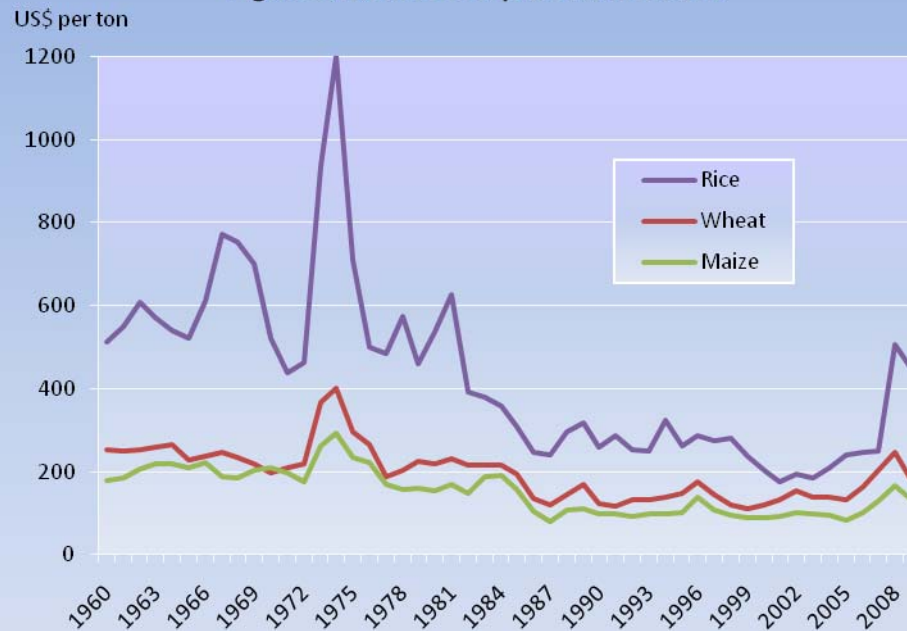
Crude oil - average spot price, Brent, Dubai & West Texas Intermediate (right hand scale)

Source: World Bank Commodity Price Data

- **Oil:** steep fall to below pre-crisis levels, then recovery
- **DAP & urea:** steep fall, following oil price

Global food prices - longer term view

Figure 3: Real cereal prices since 1960



Deflator: unit value index of developed country manufactured goods exports (2000=100)

Rice - Thai white milled, 5% broken, FOB Bangkok

Wheat - USA No. 2 Hard Red Winter (Ord) FOB Gulf

Maize - USA Yellow No.3, FOB Gulf

Source: UNCTAD Commodity Price Bulletin

- 2008 price spikes appear dwarfed by mid-70s boom
- Declining trend in 'real' prices in interim
- Was the food price crisis merely a blip?
 - Dorward: standard deflators overstate long-term real food price decline for the poor

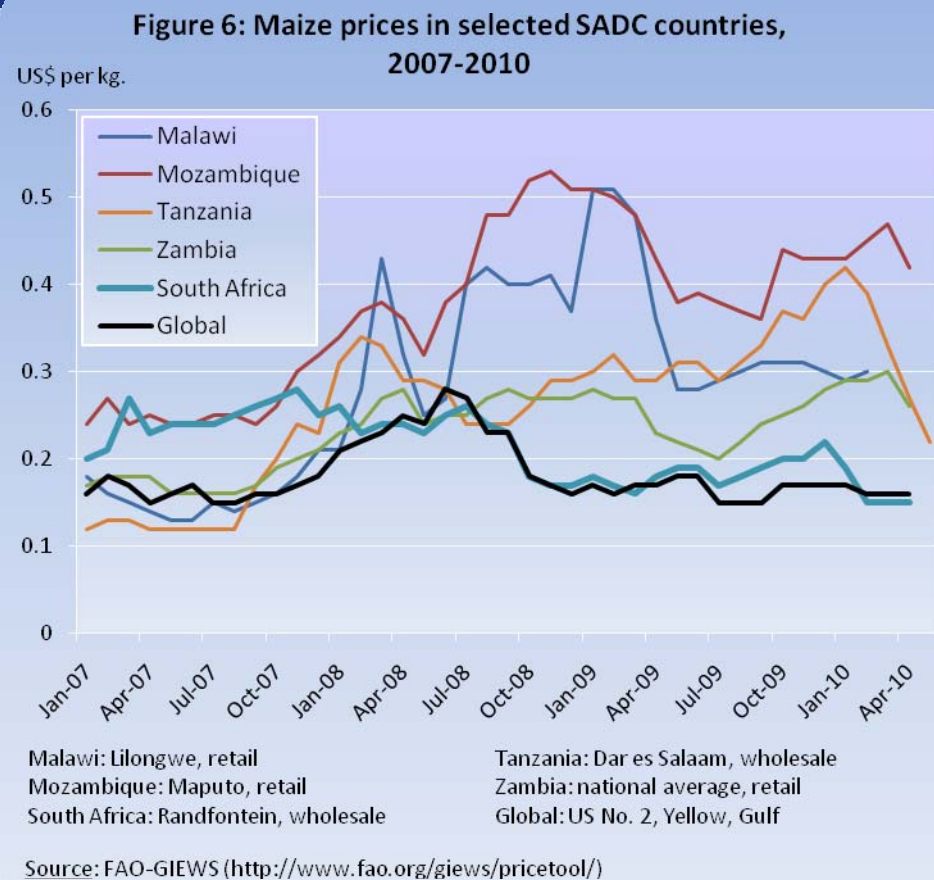
Food price crisis: causes

- International agencies painted picture of secular change citing mix of short & long-term causes:
 - **poor harvests** in Australia and Russia (wheat)
 - **speculation** in futures markets
 - **US\$ volatility**
 - **oil & fertilizer prices** pushing up costs
 - land diverted to **biofuels** production
 - **rising demand** in emerging economies (rice, wheat, meat)
 - **decades of underinvestment in agriculture**
- But hindsight shows short-term factors dominant, esp. speculation (Headey & Fan, 2008; Cooke & Robles, 2010)

Effects on poor countries and poor people

- Presumption that high global prices quickly transmit into national economies, hitting net food buyers (countries/people)
- But much depends on who needs to buy, how much & when
- ESA countries:
 - ‘Marginal’ importers: seldom more than 10% of needs
 - ‘Thin’ markets: small output change → large price change
 - Skewed output structure: 20% sellers, 60% buyers
 - Poor buyers mainly affected by seasonal price instability
 - Imports & stocks vital for limiting seasonal price highs
- Problem is when imports coincide with global price spike, failing to contain domestic prices...
- ...then worst for ‘remote’ countries & market-dependent poor

SADC maize prices since Jan'07



- Global peak not in lean season, little impact on domestic prices
- **South Africa** (price leader for Bots, Les, Nam, Swa) peaks well before global, following only later
- **Mal, Zam**: landlocked, import policy problems
- **Moz, Tan**: forex limits, internal logistics constraints

Financial crisis

- At heart a crisis in US/European commercial banks – SSA banks hardly affected (RSA more so)
- Early effect was to depress world food, fuel & fertiliser prices
- But presented as compounding the crisis: a ‘perfect storm’
- Severe global depression did threaten poor countries (though poor rural groups had less to lose)...
- ... but was largely averted by massive public bail-out of banks
- Resumed growth in recession-hit economies
- ... though prices still subject to speculative swings, and secular trends unclear

Policy issues

- Dramatisation of '3 Fs crisis' by international agencies was opportunistic, based on undifferentiated analysis
- Spate of initiatives mainly short-term and more of the same (safety nets, school feeding, seeds & fertilisers etc)
- Danger of deflecting attention from deeper, longer-term crisis of poverty and vulnerability
- Did little to help build lasting social protection institutions in poor countries – or learn lessons for global governance