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ADB's Response to the Food Crisis

Asian Development Bank

I. INTRODUCTION

1. Soaring food prices are threatening to push tens of millions of people in Asia and the Pacific into poverty.¹ Unless tackled effectively, this crisis could undermine gains in poverty reduction and stall progress toward the Millennium Development Goals. Responding to the recent spike in food prices, the President of the Asian Development Bank (ADB) made two commitments during the 41st Annual Meeting in May 2008. First, ADB will provide up to \$500 million in immediate budgetary support to the hardest-hit countries in Asia and the Pacific. Second, ADB will increase its lending for agriculture and rural development to more than \$2 billion in 2009.² The announcement followed ADB's release of two new publications in April 2008: a study on the causes and impacts of higher food prices,³ and a report outlining ADB's response to the crisis.⁴ Since May 2008, some of the affected developing member countries have approached ADB for possible food crisis assistance. In assessing the needs and defining its response, ADB has been working closely with other multilateral development banks, as well as other multilateral and bilateral agencies. After briefly reviewing the main causes and impacts of rising food prices, this paper provides updated information on ADB's planned food crisis operations in the immediate term, and its approach to supporting longer-term measures.

II. HIGH FOOD PRICES: CAUSES AND IMPACTS

2. ADB's recent studies suggest that several long-term structural factors and short-term cyclical factors have contributed to the recent rise in food prices (footnotes 3–4). The dominant factors are structural and include (i) the continuing surge in oil prices, which is driving up prices of fertilizers and fuels; (ii) the diversion of food crop acreage to biofuels; and (iii) the growing demand for grains as a result of population and income growth in emerging economies and associated dietary changes. At the same time, investment in agriculture—for technology, infrastructure, and extension programs—has been neglected, adding to supply constraints. The crisis was intensified by cyclical factors, such as the weakening of the US dollar, declining food stocks, and bad weather in key producing countries. Furthermore, some policy responses of major rice-exporting countries—such as export bans and restrictions—exacerbated the situation by increasing price volatility in the international rice market. While a supply-side response may moderate food prices later in 2008, high prices are projected to persist for the next few years.

3. Higher food prices have had devastating impacts on households in the hardest-hit countries. Food accounts for about 60% of the poor's total expenditures in Asia and the Pacific. Food price inflation has seriously eroded their purchasing power, increasing the severity of food deprivation and malnutrition. In addition to deepening the impoverishment of the poor, the food crisis is likely to push many more people below the poverty line. A recent ADB study shows that a 10% increase in food prices will increase the number of people living in absolute poverty by 7.05 million in Pakistan alone (footnote 3). Income inequality is also expected to grow because of the greater share of food in total expenditure for the poor, as well as the differing impacts of higher food prices on larger and smaller farmers, and on rural and urban poor.

¹ During the 1-year period ending in March 2008, wheat export prices increased by 130%, rice by 98%, and maize by 38%. Source: Food and Agriculture Organization. 2008. *Crop Prospects and Food Situation*. Rome. April.

² Other multilateral development banks have also announced special food crisis response programs. In May 2008, the World Bank established a \$1.2 billion global food crisis response facility, including \$200 million in grants targeted at the poorer and severely affected countries. In the same month, the Inter-American Development Bank established a \$500 million credit line to ease the impact of rising food prices on countries in the region.

³ ADB. 2008. *Special Report: Food Prices and Inflation in Developing Asia—Is Poverty Reduction Coming to an End?* Manila.

⁴ ADB. 2008. *Soaring Food Prices: Response to the Crisis*. Manila.

4. Higher food prices have contributed to accelerating inflation posing a serious challenge for macroeconomic management. Tightening monetary policies and raising interest rates to curb inflation risks slowing down economic growth, which these countries can ill-afford. On the fiscal side, burgeoning food and fertilizer subsidies have increased pressure on public resources and strained the fiscal budgets of many countries. The fiscal impact is more severe for countries with already large budget deficits (such as Bangladesh, India, Pakistan, and Sri Lanka). For example, food subsidies in Bangladesh are estimated to double in the current fiscal year, climbing well above \$1.5 billion. The sharp rise in food prices in the affected countries have coincided with record-high oil prices and a weakening US dollar, substantially weakening their capacity to cope with the food crisis. Moreover, the 'room for maneuver' in containing inflation and the fiscal deficit through fiscal and monetary policies in the economy as a whole has been sharply reduced by the higher food prices. External assistance to the affected countries to combat the food crisis will increase fiscal space and provide a non-inflationary source of financing of public expenditures.

5. While the food crisis is affecting many of the economies in Asia and the Pacific, the level and nature of the negative impacts depend on country conditions. The table below shows a list of countries with food inflation exceeding 10% over the past year, together with indicators on poverty, fiscal capacity, and dependence on cereal imports, which might influence the severity of the impacts.

Asian and Pacific Countries Affected Severely by the Food Crisis

	Food Inflation (%) ^a	Population Below Poverty Line (%) ^b	Fiscal Capacity (CPA Rating) ^c	Dependence on Cereal Imports (%) ^d
Afghanistan	31	53.0	—	—
Bangladesh	13	40.0	3.5	14
Cambodia	24	34.7	4.0	17
Indonesia	14	16.6	4.5	12
Kyrgyz Republic	32	39.9	4.0	32
Mongolia	36	36.1	4.5	23
Nepal	10	30.9	3.5	7
Pakistan	21	23.9	3.5	18
Sri Lanka	31	22.7	2.5	34
Tajikistan	33	44.4	4.5	19

— not available; CPA = country performance assessment

^a Changes in national food consumer price index between March 2007 and March 2008, except for Cambodia and Kyrgyz Republic where the figures represent changes between January 2007 and January 2008. Source: government statistical database and staff estimates.

^b The latest available data on the proportion of population living below the national poverty line. Source: Asian Development Bank. 2008. *Basic Statistics 2008*. Manila; and staff estimates.

^c Based on 2007 CPA ratings on fiscal policy (scale of 1.0 to 6.0). This criterion covers fiscal policy responses to shocks, consistency of fiscal policy with macroeconomic stability, and quality of public goods provision.

^d The ratio of imports of cereals to the sum of domestic cereal production and imports. Source: Food and Agriculture Organization. 2007. *FAO Statistical Yearbook 2005–2006*. Rome.

6. Countries are responding to the situation in various ways. Macro-level measures include (i) reducing or eliminating taxes on food grains (Afghanistan, Bangladesh, Cambodia, Indonesia, Kyrgyz Republic, Mongolia, and Tajikistan); (ii) increasing the supply of grains from available stocks (Bangladesh, Indonesia, Kyrgyz Republic, Mongolia, and Pakistan); and (iii) introducing

price controls and consumer subsidies (Bangladesh, Indonesia, Kyrgyz Republic, Mongolia, Pakistan, and Sri Lanka). Some countries have imposed export restrictions (Bangladesh, Indonesia, Nepal, Pakistan, and Sri Lanka). Most countries have expanded safety nets, including food-for-work programs (Afghanistan, Bangladesh, Cambodia, Nepal, and Tajikistan), school feeding programs (Bangladesh, Cambodia, Nepal, Sri Lanka, and Tajikistan), cash transfers (Bangladesh, Indonesia, and Nepal), and food rationing or stamp programs (Bangladesh, Indonesia, and Sri Lanka).

III. ADB'S RESPONSE TO THE FOOD CRISIS

7. ADB's response will consist of short-term measures (including immediate ones), and medium- and long-term measures. These will be pursued in line with ADB's long-term strategic framework 2008–2020 (Strategy 2020).⁵ ADB's short-term response will focus on reducing the immediate negative impact on the poor and the most vulnerable, and stimulating food production in the short term. ADB's longer-term response will be designed to raise productivity, increase market access, improve the business climate, and deepen reforms. Policy support will be an important element of ADB's response to the food crisis.

8. **Short-Term Measures.** ADB's short-term response will help strengthen targeted safety nets programs—such as cash transfers, food-for-work, food stamps, and school feeding programs—to help meet the poor's minimum food consumption needs. ADB will also support urgent government programs to ensure timely access by smallholder farmers to critical agricultural inputs (seeds and fertilizers). The modality of ADB assistance will depend on country conditions and might include quick-disbursing budgetary support.

9. In response to government requests,⁶ ADB has fielded missions to Bangladesh, Cambodia, and Pakistan to assess the situation and design its response in collaboration with other development partners, such as the World Bank, the International Monetary Fund, the Food and Agriculture Organization of the United Nations (UN), and other multilateral and bilateral agencies. The governments of Afghanistan, Kyrgyz Republic, and Tajikistan have also approached ADB for possible assistance. In addition, ADB is considering a project for Mongolia to help improve the targeting of safety nets. For the Pacific developing member countries, ADB is exploring a possible regional approach to mitigate the impacts of higher global food prices in collaboration with other development partners. Individual projects and programs are expected to be submitted for Board consideration by September 2008. Considering the urgency, and depending on the country situations, proposals may be submitted to the Board for consideration under a shortened circulation period.

10. ADB will provide up to \$500 million to finance its short-term support for the hardest-hit countries. ADB support will be financed with funds from loan cancellations and savings from the existing loan portfolio, and adjustments in existing programs in the affected countries. In addition, the affected countries with access to Asian Development Fund (ADF) resources may use the incremental funds from the \$700 million increase in the commitment authority under the eighth replenishment of ADF.⁷ ADB Management had considered earmarking \$200 million from

⁵ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

⁶ While Sri Lanka also requested ADB assistance in May 2008, the request was withdrawn subsequently considering the improvements in the food crisis situation in the country.

⁷ The increase in expected commitment authority is primarily from exchange rate adjustments on donor contributions and internal resources. The Treasury Department will continue to monitor the exchange rate situation throughout

the additional ADF commitment authority for food crisis operations. However, because of the lack of donor consensus, Management has decided to allocate the entire \$700 million to countries according to the performance-based allocation (PBA) policy and the Board-approved allocation to Georgia outside the PBA.⁸ In addition to loans and grants, ADB's short-term response will be complemented by technical assistance operations to provide policy and capacity development support.

11. **Medium- and Long-Term Measures.** In line with Strategy 2020, ADB's medium- and long-term response will target farm productivity and profitability gains through improved rural infrastructure and services (including rural roads and bridges, rural electrification, and water and irrigation services), better access to rural finance and information, and enhanced agricultural market infrastructure. ADB will continue to promote agricultural and food policy research through collaboration with international agricultural research centers.⁹

12. ADB's support for medium- and long-term measures will be financed through its regular country operations. The current project pipelines suggest that ADB's planned investments in agriculture would total about \$4.7 billion in 2008–2010.¹⁰ Of the total, about \$3.4 billion (or over 70%) is expected to finance rural infrastructure development. ADB operations in agriculture would be enhanced further based on country assessments on the crisis and its long-term development implications. As the President announced at the Annual Meeting, ADB envisages increasing its support for agriculture to \$2 billion in 2009.

13. **Policy Support.** An important component of ADB's food crisis responses will be policy support. In the short term, the focus will be on improving the efficiency in safety nets program management—better targeting, sound governance and fiduciary oversight arrangements, and effective monitoring and reporting systems—and increasing access to input supplies and farm credit at market rates. In the medium to long term, ADB will seek to help governments (i) achieve prudent medium-term fiscal management, (ii) rationalize economic incentives for agriculture through price and trade policy reforms for major produce and inputs, and (iii) create an enabling environment for private investments in the rural sector. ADB will work closely with other development partners in designing and implementing its policy support.

14. To aid its operations, ADB is undertaking an in-depth study on the food crisis. It will examine the relative importance of factors contributing to the food price spike, explore the links between oil prices and food prices, and identify more nuanced policy inferences.¹¹

15. **Partnerships.** ADB will seek partnerships with other development organizations in responding to the food crisis, including carrying out needs assessments, designing assistance, and monitoring and evaluating operations. In addition to the field-level collaboration, ADB is

the year. On 30 September 2008, the commitment authority will be set for the remainder of the period based on exchange rates prevailing on that date.

⁸ In line with the PBA policy, a memo on the revised 2007–2008 PBA allocations of ADF was circulated to the Board on 8 July 2008. For allocation to Georgia, see ADB. 2007. *Eighth Replenishment of the Asian Development Fund and Third Regularized Replenishment of the Technical Assistance Special Fund: Georgia's Access to ADF Resources and an Exceptional Allocation of ADF Resources to Georgia*. Manila (approved 16 January 2008).

⁹ ADB is developing a regional technical assistance proposal (\$3 million) to support agricultural and food policy research of the International Rice Research Institute and the International Food Policy Research Institute.

¹⁰ This figure is based on the pipeline of sovereign lending and grant operations included in the work program and budget framework for 2008–2010, and is subject to changes following the completion of the 2008 country programming exercise and the work program and budget framework exercise for 2009–2011.

¹¹ Study findings will be an input to a special chapter on food prices in the upcoming Asian Development Outlook Update 2008, scheduled to be launched on 16 September 2008.

working closely with other multilateral development banks at the institutional level. ADB and other regional development banks will coordinate with the UN Task Force on the Global Food Security Crisis through the World Bank and International Monetary Fund, which are members of the task force.¹²

IV. CONCLUSION

16. The recent food crisis has highlighted the vulnerability of the region's economies to food insecurity and the magnitude of its potential impacts on poverty reduction. ADB is acting quickly to meet the immediate needs of the hardest-hit countries, and is committed to delivering medium- and long-term solutions to strengthen food security in the region. ADB will continue to work closely with other development partners in implementing its food crisis operations and contribute to the region-wide outcomes in line with Strategy 2020. ADB will closely monitor the overall food crisis situation in the countries, and respond to emerging medium-term concerns through the country programs.

¹² The task force was established in April 2008 to coordinate the food crisis response from the UN specialized agencies, funds, and programs; Bretton Woods institutions; and relevant parts of the UN Secretariat.