OXFAM INTERNATIONAL

The IFIs' Responses to Food Price Hikes

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1. Introduction

The terms of reference of this small piece of research require it to 'contribute to the deepening of Oxfam policy positions, especially with respect to the appropriateness and suitability of assistance provided by the World Bank and the International Monetary Fund (also referred to here as the IFIs) to countries suffering as a result of a sudden increase in food prices such as occurred in 2007/08.' The ToR also provide this 'Working Hypothesis':

> 'Food price volatility is placing substantial pressure on the ability of developing country governments to finance higher import bills and provide basic social protection for poor and marginalized individuals who generally cannot afford enough to eat and who are priced out of markets as food prices rise. The availability of external financing that can be quickly and efficiently deployed will determine the ability of developing country governments to effectively respond to increased humanitarian need resulting from rapidly rising food prices. The IFIs have developed a set of tools to assist countries in need, but no independent evaluations of these financial facilities have been carried out.'

In 2007-08 the relevance to the Food Price Crisis of the World Bank and the IMF was not obvious. The Bank had been losing interest in food and agriculture over a long period, and agriculture fell as a share of its lending from 30 per cent in 1980 to 12 per cent in 2005-07.[1] On the other hand the IMF's task is to help countries that have difficulties with their balance of payments, not their food supplies or agriculture, and its association with development arose only as a by-product of the role it assumed in the International Debt Crisis of the 1980s. By 2008 its role in the world economy was being questioned more widely: high-income countries had not used its facilities for a long time; middle-income countries had mostly paid off their debts to it, disillusioned by the Debt Crisis and then the East Asian crisis in 1997; while the revival of commodity prices had strengthened the foreign payments of most low-income countries (LICs), so the Fund's relevance to them fell away after the Heavily-Indebted Poor Countries (HIPC) Initiative was worked through earlier in the decade. By the end of 2007, the amount of credit 'outstanding' (remaining due for repayment) to the IMF from its members stood at SDR9.8bn, the least since before 1984 and down from a record high SDR71.9bn just four years earlier.[2]

The countries worst affected by the Food Price Crisis are those which the UN Food & Agriculture Organisation (FAO) defines as Low-Income Food-Deficit Countries (LIFDCs), of which there are 70 at present.[3] (In 2008, there were 82.[4]) Of the present number, 39 are in Africa, 22 in Asia, one in Europe, three in America and five in Oceania. This paper will look most closely at the impact of the IFIs' activities on those countries: first in a section on the IMF, then the World Bank, and then a third section which summarises other international agencies' activities.

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[1] Brock and Paasch (2009), p. 17.

[2] 'Total IMF Credit Outstanding for all members from 1984 – 2011', www.imf.org/external/np/fin/tad/extcred1.aspx. The SDR is the Special Drawing Right, a composite currency used in the IMF's accounting. US$ 1.00 = SDR 0.6257 at the time of writing (http://markets.ft.com/RESEARCH/Markets/DataArchiveFetchReport?Category=CU&Type=3SPT&Date=06/10/2011). Both weblinks were accessed in July 2011.

[3] www.fao.org/countryprofiles/lifdc.asp.

[4] FAO (2008), p. 62.

Finally some comments will be made about policy points to watch in the IFIs' work concerning food prices and agriculture.

Among the international institutions, it was the FAO which did the first work on the Food Price Crisis in late 2007. However, the global surge in grain prices risked fatally undermining the advice which the World Bank had given to developing countries for many years: that they could safely rely on world markets for their food supplies. In April 2008 the Bank's President, Robert Zoellick, called for a 'New Deal for a Global Food Policy'. Later that month Ban Ki-Moon, the UN Secretary-General, set up a 'High-Level Task Force on the Global Food Security Crisis', which prepared a 'Comprehensive Framework for Action' (CFA) that was agreed by the G8 at its Hokkaido Summit in July 2008. The CFA was later updated in 2010. Although Hokkaido's 'Statement on Global Food Security' singled out the World Food Programme (WFP) in 'making commitments … to meet remaining immediate humanitarian needs and to provide access to seeds and fertilizers for the upcoming planting season' and called on the UN to 'facilitate and provide coordination' in 'a global partnership on agriculture and food',[5] the Bank has since then made every effort to take on such activities and place itself at the centre.

2. The IMF's role and its lending facilities

The IMF has been described as 'the great winner of the global crisis',[6] taking the food and financial crises together. Its role was expanded at the London Summit of the G20 in April 2009, which 'reaffirmed the IMF's central role in the international financial system, agreeing to triple the Fund's lending capacity to $750 billion', including more than a doubling of concessional lending to LICs.[7]

Meanwhile, the overall impact of the financial and food price crises on the external payments of the 49 Least Developed Countries (LDCs) has been described like this:

> '[T]he external accounts of oil-importing and food-importing LDCs … worsened considerably in 2008 with sharp spikes in international prices of fuel and food, and the easing of these prices in 2009 dampened the negative macroeconomic effect of falling export revenues… [I]n most other LDCs [besides oil- and mineral-exporting countries], the current account deteriorated significantly in 2008 but actually improved in 2009. This is due to lower food and fuel import prices which helped to offset the negative effects of falling export revenue.'[8]

Taken together, the LDCs' combined current account on balance of payments deteriorated from US$117m in 2006 to US$7.8bn in 2007, US$17.7bn in 2008 and US$30.1bn, or 5.7 per cent of gross domestic product, in 2009.[9] This was therefore a serious reversal for their international finances as well as their food security.

Now, some care is required to distinguish between the IMF's various facilities, but they work through two main channels. In the first of these, the Fund's General Resources Account (GRA) comprises money which member states are entitled to as of right. When in need they can call upon **Standby Arrangements** from the GRA to tide them over, based on loan quotas that match their subscriptions to the Fund.

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[5] 'G8 Leaders Statement on Global Food Security', www.canadainternational.gc.ca/g8/assets/pdfs/G8_Leaders_Statement_Global_Food_Security-eng.pdf (July 2011).
[6] The first chapter of Eurodad *et al* (2010) is called 'The IMF: the great winner of the global crisis'.
[7] *IMF Survey online*, 'G-20 reaffirms IMF's central role in combating crisis', www.imf.org/external/pubs/ft/survey/so/2009/NEW040309A.htm.
[8] UNCTAD (2010), p. 29.
[9] *Ibid.*, Table 7.

In June 2011, 13 countries had 'standbys' in place, including three of the better-off Asian LIFDCs (Iraq, Pakistan and Sri Lanka) – see Table 1 on p. 4.[10] In this area, the IMF has also introduced two new forms of credit since 2008. A '**Flexible Credit Line**' was launched for strongly performing 'emerging' economies in 2009. The first line of credit under it was extended to Mexico in April 2009; Colombia and Poland are also using it. In addition, a '**Precautionary Credit Line**' was made available in January 2011; so far, only Macedonia has used it.

In the context of the Food Price Crisis the most relevant programmes could have been the **Compensatory Financing Facility** (CFF) and the **Exogenous Shocks Facility** (ESF). The CFF is meant for countries which 'experience temporary shortfalls in export earnings or excess cereal import costs or both.' These have to be largely caused by factors outside a country's control, resulting in a balance of payments need.[11] That would seem exactly right for this situation. The CFF comes under the GRA and is subject to the same conditionality as applies to all facilities under it; this means no conditions if the country has no other IMF loans out at the same time. But although it was created to serve developing countries' needs, the CFF has been little used since the early 1990s and has not revived since 2008. A problem for LICs is that being under the GRA, the CFF does not come with concessional interest rates.

The IMF's second channel of loans is of greater relevance for our purpose, because they are extended with concessional interest rates to poor countries. At the time of the first phase of the crisis in 2007-08, concessional loans for general balance-of-payments support came under the **Poverty Reduction and Growth Facility** (PRGF), which accompanied the HIPC scheme mentioned on p. 1. Although the CFF is a GRA facility, the ESF came under the PRGF, with a concessional rate of 0.5 per cent *p.a.* It exists to serve broadly defined needs, namely 'an event beyond the control of the authorities of the member with a significant negative impact on the economy.'[12] This too would seem to match the need, but the ESF is at present used only to the extent of one SDR2m (US$3.2m) loan to the Maldives.

However, there has been a gradual reappraisal of these facilities since the 2008 crisis, and in July 2009 the IMF's Executive Board approved important reforms of the concessional facilities. The Fund also promised to increase the resources available to LICs to $17 billion[13] and announced what it called 'a more flexible approach to conditionality in the programs it supports.'[14] The reforms established three new concessional lending facilities:

- the **Extended Credit Facility (ECF)**, which succeeded the PRGF as the main tool for providing medium-term support to LICs with protracted balance of payments problems; under an 'extended' arrangement a member can borrow up to 200 per cent of its quota annually and 600 per cent cumulatively - the same amounts as under a Standby Arrangement.[15]

- a **Standby Credit Facility (SCF)**, which provides finance to LICs with short-term balance of payments needs; and

- a **Rapid Credit Facility (RCF)**, offering rapid financing with limited conditionality to meet *urgent* balance of payment needs.

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[10] www.imf.org/external/np/tre/activity/2011/060311.htm#tab2a.
[11] IMF (2004), Box 1, p. 7.
[12] IMF (2006), para. 5, p. 3.
[13] IMF (2011c), p. 3.
[14] IMF (2009c).
[15] 'Factsheet: IMF Quotas', www.imf.org/external/np/exr/facts/quotas.htm.

The already existing **Policy Support Instrument (PSI)** was retained as a 'non-financial policy support tool'. It can facilitate access to the SCF and RCF.[16] Since 2008 PSI programmes have begun in six African LIFDCs which were not borrowing from the Fund: Cape Verde, Mozambique, Rwanda, Senegal, Tanzania and Uganda.[17] However, Nigeria, the first country to use the PSI after it was introduced in 2005, suspended its use of it in July 2008 and has not used it since.[18]

Table 1. IMF loans outstanding to LIFDCs, as of June 2nd, 2011 (in millions of SDRs)

Country	IMF facility	Amount outstanding	Quota
Benin	Ext. credit	46	61.9
Burkina Faso	Ext. credit	83	60.2
Burundi	Ext. credit	77	77.0
Comoros	Ext. credit	10	8.9
Congo, Dem. Rep.	Ext. credit	309	533.0
Côte d'Ivoire	Ext. credit	243	325.2
Djibouti	Ext. credit	11	15.9
Ghana	Ext. credit	252	369.0
Guinea-Bissau	Ext. credit	5	14.2
Haiti	Ext. credit	16	81.9
Iraq	Standby (SBA)	1,070	1,188.4
Kenya	Ext. credit	331	271.4
Lesotho	Ext. credit	22	34.9
Liberia	Ext. credit	29	129.2
Malawi	Ext. credit	95	69.4
Mali	Ext. credit	34	93.3
Mauritania	Ext. credit	32	64.4
Moldova	1. Ext. credit	211	123.2
	2. Ext. fund	50	
Nicaragua	Ext. credit	114	130.0
Pakistan	Standby (SBA)	5,233	1,033.7
São Tomé & Príncipe	Ext. credit	3	7.4
Sierra Leone	Ext. credit	73	103.7
Solomon Islands	Standby credit (SCF)	6	10.4
Sri Lanka	Standby (SBA)	1,108	413.4
Tajikistan	Ext. credit	78	87.0
Togo	Ext. credit	86	73.4
Yemen	Ext. credit	42	243.5
Zambia	Ext. credit	255	489.1

Source: IMF.

Among these instruments, the ECF is of the greatest interest to us because it replaced the PRGF as the main lending facility on offer to poor countries. However, it bears repeating that IMF programmes do not exist to counter hunger, food shortages or poverty, but to help countries overcome difficulties in their foreign

[16] IMF (2009a), p. 3; emphases in the original.
[17] IMF (2011b).
[18] *AllAfrica*, 'Nigeria: FG Dumps IMF's Policy Support Instrument', citing *Daily Trust* (Nigeria), July 8th, 2008, http://allafrica.com/stories/200807080006.html (June 2011).

payments. If they have no such difficulty, or can handle it by other means, they will not go to the IMF. The Fund's legendary power over developing countries was acquired during the 1980s Debt Crisis, when creditor governments and banks insisted that they would not reschedule their loans to any country unless it had an IMF programme in place. According to the latest information, 46 of the 70 LIFDCs are not using the IMF's financial support (although, as we just saw, six are making use of the PSI without borrowing any money). Its facilities are currently being used by 27 countries altogether, including 24 of the 70 LIFDCs (19 of them in Africa, two in Asia, two in Central America/Caribbean and one in Europe).[19] One small country (Moldova) has a small Extended Fund Facility loan[20] as well as an ECF, and one other (the Solomon Islands) owes SDR6m (US$9.6m) on an SCF rather than and ECF. The RCF is not being used at all. Table 1 on p. 4 gives details.

Although the IMF was established to help countries overcome short-term balance of payments difficulties, it tends in fact to have to deal with more chronic problems and its programmes will often keep going in a country for several years; therefore, the longer-term ECF is much more often used in eligible countries than the shorter-term SCF and RCF. Thus, Tanzania was making use of IMF loans every year from 2000 to 2007, and a PSI since then; Uganda every year from 2002 to 2006, and a PSI since then; Zambia every year since 2004; Senegal from 2003-06; and so on.[21]

Among the IMF's stated aims in reforming its programmes was that of expanding the 'policy space' available to LICs and reduce the policy conditions that applied; and to enable a government to pursue 'counter-cyclical' fiscal and monetary policies which would stimulate the economy rather than provoking further decline. This was in response to criticisms that have been levelled at the Fund since at the least the 1980s. The Fund has given these examples of 'flexibility' and 'expanded policy space in the face of the crises':

- its programmes became 'progressively accommodating' in setting inflation objectives;
- larger fiscal deficits have been allowed during the crises;
- recent programmes have 'placed emphasis on strengthening social protection for the most vulnerable'; and
- programmes have accommodated widening current account deficits.

Moreover, the Fund claimed that 'past successes' in macro-economic stabilisation had created 'the needed space' in many LICs to enable counter-cyclical responses to the crises to be used.

On conditionality the Fund has stated that the number of conditions has been declining over the last ten years. 'Structural conditionality' concentrates on public sector resource management and accountability while responding 'to the increasing need to mitigate pressures on public finances during the twin global crises'. Moreover, 'As the number of conditions has declined, the implementation rate has improved.'[22]

A professor at London University's School of Oriental and African Studies (SOAS) recently concluded that there had been a significant change at the IMF, for example when a May 2009 press release reported that it recommended a fiscal stimulus for a low-income country, Mozambique. Moreover, 'Without explicitly

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[19] The three which are not LIFDCs are Armenia, the Republic of the Congo and Grenada.
[20] The Extended Fund Facility (EFF) is like a longer-term version of a Standby Arrangement and comes under the GRA. See IMF (2011a).
[21] UNCTAD (2010), Table 18, p. 98.
[22] IMF (2009b), p. 5. Emphases in the original.

mentioning countercyclical measures, in 2009 the IMF recommended for Sierra Leone that the country's fiscal deficit be allowed to increase to respond to the impact of the financial crisis on import prices', including those for food. Nonetheless, he considered that 'a commitment to the pre-crisis orthodoxy remains among professionals in the Bretton Woods institutions.'[23]

The IMF's arguments failed to convince critics from the Center for Economic and Policy Research (CEPR) in Washington and another team from SOAS. CEPR examined the macro-economic policies recommended in the post-crisis IMF programmes of 41 countries, ranging on the income scale from Burundi to Hungary. Its aim was to see whether the Fund was still imposing monetary and fiscal restrictions which can act 'pro-cyclically' by reinforcing an economic downturn rather than helping a country to overcome it. It conceded that 'in many cases the pro-cyclical policies, such as reducing the fiscal deficit, were … loosened' after 2008.[24] But it found that the change was limited in extent. Thirty-one of the 41 agreements contained 'either pro-cyclical fiscal or monetary policies – or in 15 cases, both'. In the face of a significant slowdown in growth or a recession, these 'would be expected to exacerbate the downturn.'[25] It also argued that 'Fund policy does not allow or encourage the same types of expansionary macroeconomic policies' for low- and middle-income countries as it recommends for the high-income countries.[26]

The SOAS team, which was working for the Eurodad coalition of NGOs, among others, made the more fundamental criticism that the IMF's heavy reliance on monetary policy is actually unrealistic in most LICs:

> '[T]he underdevelopment of the domestic financial system … prevents the supposed relationship between the money supply and the inflation rate from working as it should… [F]or such activity to be effective, a viable domestic market for public bonds — i.e., made up of a substantial financial and corporate sector — must exist. However, the financial sectors of most Low-Income Countries tend to be dominated by a few banks, usually foreign-owned, and large non-financial corporations are typically restricted to the extractive sectors.'[27]

Like Professor Weeks and the CEPR, the Eurodad team accepted there was evidence that the Fund had permitted somewhat higher inflation and larger budget deficits in the wake of the crisis. But it argued strongly that this did not amount to expanded 'policy space' since that term is 'traditionally associated with those advocates of a policy regime prioritising a longer term and more development-oriented perspective.'[28] They too were unconvinced that there had been any major change in IMF policy:

> 'The main "innovation" is the admission that policymakers should monitor multiple targets, rather than be solely preoccupied with the inflation rate, and that multiple instruments should be deployed, including fiscal and exchange-rate policies, rather than just relying on monetary policy. Yet, the fundamental assumption that macroeconomic policies are suited only to deal with issues of short-term stability persists. The assumption is that once macroeconomic

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[23] Weeks (2010), pp. 4-5.
[24] CEPR (2009a), p. 2.
[25] CEPR (2009b), p. 4. The report was written by Mark Weisbrot and four others.
[26] *Ibid.*
[27] Eurodad *et al* (2010), p. 32.
[28] *Ibid.*, p 20. The paper was written for Eurodad, the Third World Network and the Heinrich Böll Foundation. Its authors were Elisa Van Waeyenberge, Hannah Bargawi and Terry McKinley of SOAS. Chapter 4 of the report ('Old habits die hard: new Fund, same old policies?', pp. 17-26) contains the critique of the Fund's change of stance.

stability is achieved, the private sector will undertake the necessary investments for growth. Such an assessment remains grossly inadequate for promoting development in Low-Income Countries.'[29]

3. The World Bank's aid programmes

The World Bank oversees two main programmes that were established in response to the Food Price Crisis, a short-term one and a more long-term one.

By 2009 the Bank had edged the UN away from the centre of work addressing food price volatility. As a complement to the UN's Comprehensive Framework for Action, the Pittsburgh G20 Summit in September 2009 called on the Bank 'to work with interested donors and organizations to develop a multilateral trust fund to scale-up agricultural assistance to low-income countries.'[30] The outcome was the **Global Agriculture and Food Security Programme** (GAFSP),[31] which is the longer-term programme in response to the crisis. It is a funding channel for donors' commitments in support of global agriculture and food security, working through separate 'public sector' and 'private sector' windows. The Bank is its financial trustee, provides the Coordination Unit on behalf of the Steering Committee composed of donors and recipient countries, and supervises certain projects. The Bank also has its own, separate lending portfolio in agriculture.

At the end of April 2011 seven bilateral donors and one humanitarian foundation had pledged a total of US$925m to the trust fund, and by mid-June GAFSP operations were approved in 12 countries: Bangladesh, Cambodia, Ethiopia, Haiti, Liberia, Mongolia, Nepal, Niger, Rwanda, Sierra Leone, Tajikistan and Togo.[32] Five of them also have loans outstanding to the IMF.

More noticeably, all except Mongolia have been clients of the **Global Food Crisis Response Fund** (GFRP). The GFRP was launched before the GAFSP, in May 2008, with a view to the 'expedited processing' of assistance – two months before the G8's Hokkaido Summit. Unlike GAFSP, it is essentially a programme of the World Bank. Its initial budget of US$1.2bn was funded mainly by the International Development Association (IDA - the part of the Bank which lends to poor countries at concessional interest rates), the remainder coming from the Bank's main body, the International Bank for Reconstruction and Development (IBRD), and a single-donor trust fund attached to the Bank. The equivalent of another US$352m has come from three other donor trust funds, including €111.8m (US$161m) for operations in 10 countries from the European Union Food Facility (EUFF). The Bank's budget for the GFRP was increased in April 2009 to US$2bn but its final deadline for expenditure was brought forward to June 2010; however, this later returned to June 2011 because of the further increase in many food prices in 2010-11. The time period had been curtailed 'in response to a concern that the GFRP should not become a substitute for the Bank's regular program in agriculture and social protection'.[33]

The GFRP acts in three areas:

(i) **Social protection**: to reduce the negative impacts of high and volatile food prices on the lives of the poor in a timely manner;

[29] Eurodad *et al* (2010), Box 5, p. 28.
[30] 'Leaders' Statement: The Pittsburgh Summit', www.canadainternational.gc.ca/g20/summit-sommet/g20/declaration_092509.aspx (July 2011).
[31] World Bank (2009), p. 4.
[32] www.gafspfund.org/gafsp/ (June 2011).
[33] World Bank (2010), para. 57, p. 26.

(ii) **Food price policy and market stabilisation**: to support the design of sustainable government policies to mitigate adverse impacts; and

(iii) **Agricultural supply response**: to support growth in productivity and market participation in agriculture.

As of December 2010 these had taken 20 per cent, 34 per cent and 44 per cent of total realised expenditure, respectively.[34]

By early May 2011, the value of operations approved under GFRP was US$1.53bn, of which 77 per cent had been disbursed, according to World Bank sources. In December 2010 the fourth Progress Report stated that the Bank's resources had financed 55 GFRP operations in 35 countries, including 28 operations that were still active (see Table 2 on p. 9). Some US$1.24bn had been approved, but in a very concentrated manner with US$825m, or 66.5 per cent of it, going to just four countries: Bangladesh, Ethiopia, the Philippines and Tanzania. Some US$250m, or 20 per cent of the total, went on one fertiliser project in Ethiopia. About 60 per cent of the total approved expenditure went to Africa. The US$200m in the programme which fell under the IBRD all went to policy advice on rice imports and social protection in the Philippines.[35] This author did not discover any substantial evidence that net-food importing developing countries chose not to access these funds or experienced any problems with their timing or disbursement. That does not mean it did not happen, but it was not feasible to find evidence of the national decisions involved.

The recipient countries included 15 of the 24 LIFDCs with outstanding loans to the IMF; so nine of the IMF's list did not use the GPRF, while 20 GPRF clients did not make recourse to the IMF. However, this researcher has discovered in the World Bank's materials no explanation of the criteria used by the GFRP in its selection of countries. The Bank's website states that it was set up 'to provide immediate relief to countries hard hit by food high prices',[36] but does not specify whether they are intended to be the countries *most* hard hit or to reach the groups of *people* in the world who are the most hard-hit, or whether some other criteria apply. For example, there is a US$3m Rice Productivity Improvement project and a US$2m Community Nutrition project assistance in Laos.[37] No doubt these are useful projects, and Laos has serious problems of food security; but it is not explained why it was chosen for assistance although in September 2009 the UN's High-Level Task Force reported that 'There was less transmission of rice price increases into the Lao rice market, mainly because the main sticky rice staple is not imported and there are relatively few rice or other food imports or exports.'[38] Based on that judgment, one might think several countries which were not assisted might have a prior call on this response to the Food Price Crisis.

The GFRP's clients include 19 of the 25 countries where the state of hunger is defined in the *Global Hunger Index 2010* as 'alarming', but only Burundi among the four where it was 'extremely alarming'.[39] There might be sound pragmatic reasons why Chad, Eritrea and the Democratic Republic of the Congo were not assisted, and good economic grounds for not providing assistance to Angola or India among those in the 'alarming' category. One can imagine that for various reasons the

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[34] World Bank (2010), pp. 10 and 9.
[35] *Ibid.*, pp. 10 and 14-15.
[36] 'Food Crisis: What the World Bank is doing', updated April 7, 2011, www.worldbank.org/foodcrisis/bankinitiatives.htm (July 2011).
[37] World Bank (2010), Annex 3, p. 64.
[38] High Level Task Force (2009), p. 2.
[39] IFPRI (2010), Appendix B: 'Data Underlying the Calculation of the 1990 and 2010 Global Hunger Indexes', pp. 45-47.

governments of Chad, Eritrea and D.R. Congo might not have put in requests to the GFRP, but this is nowhere spelt out. It is noteworthy that 10 of the first 12 countries to be included in the GAFSP are in the 'alarming' category (but none in the 'extremely alarming' one).

Table 2. Approved GFRP operations, as of December 9th, 2010 (in millions of US dollars)

	'Investment' projects		DPO (policy advice)
Country	**No. of projects**	**Total value**	**Total value**
Afghanistan	1	8.0	
Bangladesh			130.0
Benin	1	9.0	
Burundi			10.0
Cambodia			5.0
Central African Republic	1	7.0	
Comoros	1	1.0	
Djibouti			5.0
Ethiopia	2	275.0	
Guinea	2	7.5	2.5
Guinea-Bissau	1	5.0	
Haiti	1	5.0	10.0
Honduras			10.0
Kenya	2	55.0	
Kyrgyzstan	2	10.0	
Laos	2	5.0	
Liberia	3	10.0	
Madagascar	1	12.0	10.0
Mali			5.0
Moldova	1	7.0	
Mozambique			20.0
Nepal	3	83.8	
Nicaragua	2	17.0	
Niger	1	7.0	
Philippines			200.0
Rwanda			10.0
Senegal	2	20.0	
Sierra Leone	2	7.0	3.0
Somalia	1	7.0	
Southern Sudan	1	5.0	
Tajikistan	2	9.0	
Tanzania	3	220.0	
Togo	1	7.0	
West Bank and Gaza	2	8.4	
Yemen	1	10.0	

Total: 55 projects in 35 countries; 26 countries had investment projects and 13 had development policy projects (four of them had both).

Source: World Bank (2010), Annex 3, pp. 62-68.

The World Bank divides its activities between 'investment lending' (IL) and 'development policy operations' (DPOs – previously called 'adjustment lending'). Broadly, the former means projects while the latter is policy advice to governments (to accompany financial support to their budgets). Of the three components of the GFRP, the second (Food Policy actions) takes the form of DPOs, while the first and third (Food Production and Social Protection) use 'investment' projects. As seen in Table 2, about three-quarters of the GFRP's operations have been IL and one-quarter DPOs. This compares with about two-thirds and one-third respectively across all the Bank's activities. The most expensive IL projects were a US$250m Fertiliser Support project in Ethiopia and a US$160m 'Accelerated Food Security Programme' in Tanzania, while the largest DPOs were US$200m worth of policy advice to the Philippines and a US$130m 'Food Crisis Development Support Credit' to Bangladesh.[40]

Among the three components, Social Protection projects were estimated to have reached 5.6 million people by the end of 2010 and were expected to reach 10 million when funds from already approved operations were fully disbursed.[41] Compared with the number of people affected by the crisis, this does not seem very many. Curiously, much of the expenditure under this heading went to filling gaps left in government budgets by the losses of revenue which resulted from reduced domestic or border taxes. The component's work included the reduction of internal taxes and the removal or reduction of import tariffs on food, as well as more conventional social protection tasks like school feeding and targeted cash and food transfers. It therefore entered a sensitive policy area with long-term implications for agriculture. The aim was to reduce pressure on retail prices in the short term, but this can be in tension with longer-term objectives of food production - as has often been argued when agricultural tariffs were reduced for other reasons.

The second component on Food Policy is aimed at the design of sustainable policy responses which mitigate the adverse impacts on poverty of high and more volatile food prices. This is done by reducing subsidies, managing food imports and shifting policy to a more comprehensive approach to cash transfers.

Under Supply Response (the third component), GFRP provides rapid support to facilitate farmers' access to seeds and fertilisers as well as rehabilitating irrigation and farm advisory services. GFRP distributed 530,000 tons of fertiliser and 3,200 tons of seeds in seven countries. By the end of 2010 these measures were estimated to have reached 5.9 million farm households. They were expected to directly benefit at least 8.8 million farm households when already approved operations were fully implement-ed.[42] Dollar for dollar by expenditure, this is roughly proportionate to the reach achieved by the FAO's Technical Cooperation Programme (TCP) in 2008, although within a much smaller group of countries (see p. 14 below).

The GFRP's emphasis has gradually moved away from social protection towards agricultural supply. According to the December 2010 report, in October 2008 there was an almost even share-out of support to Food Policy, Social Protection and Agriculture Supply Response with 31 or 32 per cent of the total going to each. But the cumulative share of support to Agriculture Supply Response increased to 38 per cent by April 2009 and 44 per cent by December 2010, while Social Protection fell to 20 per cent. Much of this may be due to the ending of tariff and tax reductions,

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[40] World Bank (2010), Annex 3, pp. 62-68.
[41] *Ibid.*, p. 6.
[42] *Ibid.*

and the revenue compensations from the Social Protection budget that accompanied them. The Bank reports that 'In [Financial Year 2009], financing for short-term responses to the food crisis accounted for about 15 percent of the overall IDA/IBRD Bank program for the [agricultural] sector. This has declined to less than 1 percent in 2010.'[43] Under the GFRP, Social Protection is seen as a short-term measure, akin to humanitarian aid. More long-term measures are considered to be those of the developmental variety, with which the Bank is more familiar. These measures are applied on the supply side of the food economy, and Social Protection on the demand side. Nevertheless, even the Supply Response component essentially offers short-term measures, designed to tweak current agricultural production rather than produce lasting long-term improvements.

Concerning the speed of response, the December 2010 Progress Report states that in the GFRP's first 10 months the average times that its operations took to go from concept to effectiveness were 75 days for DPOs and 85 days for IL projects, although they slowed down later in 2009.[44]

The Progress Report includes five pages of 'Lessons learned'. Five topics are covered, and the summaries of the first four are quoted below, followed by short comments.

1. **Cross-cutting aspects**

> '[F]uture emergency operations should consider the following: Keep design simple. Seek-out partnerships to speed delivery, particularly in fragile settings where other actors (such as CSOs, UN agencies) have a deeper field presence. Establish effective communication channels with relevant Government officials to rapidly address bottlenecks during implementation (which may be many, as emergency response operations likely have a larger residual of "preparation issues" to be addressed during implementation than regular operations). Exploit opportunities to use emergency response to craft-longer term [*sic*] responses to vulnerability but realize that this can be difficult in emergency settings given the focus on speed of response.'[45]

Sceptics might see in the last recommendation an attempt to smuggle some of the Bank's favourite policies into countries through the back door, in a situation where other ways of thinking might gain ground. An example might be the reduction or removal of tariffs on food imports. The phrase 'Exploit opportunities' is particularly worrying.

2. **Food price policy and market stabilisation** (GFRP component 2)

> 'Development policy operations are the obvious choice to support food tariff and tax reductions (through providing offsetting financing for the revenue losses)… Recognize that fiscal measures are not the most effective targeting instrument (i.e. they often reduce food costs for all consumers, not just the poor). In this respect for 'prior actions' of development policy operations, consider targeting tariff and tax reductions on food consumed more by the poor, or on protecting public spending on services provided to the poorest household.'[46]

This looks like a tacit contradiction of the squeeze on government services to poor households that was a feature of past World Bank policies of structural adjustment. The question of 'targeting' assistance on the poorest people only is taken up later in this section.

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[43] World Bank (2010), para. 56, p. 26.
[44] *Ibid.*, p. 5.
[45] *Ibid.*, p. 20.
[46] *Ibid.*, pp. 21-22.

3. **Social protection** (GFRP component 1)

> '[F]uture emergency operations should give considerable attention to the targeting mechanism to be used for emergency response. This includes working through existing programs and institutions, using existing databases on poverty, and knowledge of partners with deeper field presence. Given the emergency response nature, targeting will likely not be as accurate as longer-term safety net programs, but monitoring systems can help determine if support is actually reaching the intended beneficiaries. To expand women participation, cash or food for work programs should consider designing interventions consistent with the physical ability and culture of communities (e.g. women participation in Salt projects in Yemen). Cash or food for work programs that develop infrastructure should also consider implications for maintenance, and opportunities to develop skills in the types of work selected (e.g. road paving).'[47]

Social Protection is viewed in this programme as entirely a matter of 'emergency response' (and as such, short-term), not as part of the fabric of a 'good society' which ensures that all citizens will at the very least always be sure of finding food. The Bank admitted earlier that CSOs and UN agencies were not only better placed on the ground but had much better knowledge and experience of this type of work, especially the more humanitarian aspects of it.

4. **Agricultural supply response** (GFRP component 3)

> 'Match the timing of implementation to the agricultural season. Check estimates of input need to prevent over or under supply. Give consideration to a package of inputs (such as seeds and fertilizer as the absence of one may undermine the effectiveness of the other). Have clear objectives when targeting subsidies e.g. these could vary from (i) targeting subsistence farmers to provide for their food needs while limiting input market distortions, to (ii) targeting more productive farmers to raise next season marketed production to reduce local output prices. Each has different targeting and design implications. As emergency response often requires rapid importation of seeds and fertilizers, anticipating potential bottlenecks that restrict delivery to farm households can reduce delays and accelerate delivery. Complementary farm advice can improve the technical efficiency of input use and improve sustainability.'[48]

The Bank illustrates the first three sentences of this advice from the exceptionally large fertiliser project in Ethiopia. It says that in that case, 'demand of fertilizer is estimated through a Government-led system that led to significant over-estimates'. Moreover, 'while the availability of fertilizer appeared overall satisfactory, the demand for seeds remained unmet' and 'During early 2009, due to congestions at the port of Djibouti, the Ethiopia project experienced challenges in transporting fertilizer to central warehouses and throughout the country in time for the application season.'[49] It is hard to judge on this without direct knowledge, but it does point to the bureaucratic difficulty of quickly establishing such a large project of physical imports and distribution. Maybe that would have been better left to the UN agencies that have greater experience of this sort – as the G8's Hokkaido Summit itself seems to have intended.

5. **Internal lessons**

A 'Learning Review' of the GFRP was carried out in November 2009 and a summary of its findings was submitted to the GFRP Secretariat the following month. Some of

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[47] World Bank (2010), p. 22.
[48] *Ibid.*, p. 23.
[49] *Ibid.*, pp. 23 and 24.

the recommendations were of a practical nature, such as a help desk to guide staff through new procedures; others were about internal politics, such as the role of the Bank's President and how to gain the Board's trust in an exercise of this sort; while others had longer-term ramifications, such as this:

> '**A crisis can be constructively used as an opportunity for making progress on medium-term objectives such as improving food policy, as was done here to good effect**: The program objectives contain both short-term elements of crisis response and medium-term elements of policy design and encouragement of supply response. The program was based on a change theory that while the crisis required short-term remedial measures, it also afforded an opportunity to pursue longer-term purposes that would enable governments to deal better with future crises.'[50]

This seems manipulative, to say the least: another attempt to introduce the Bank's policies rather slyly, at a time when a country's authorities were concentrating on immediate problems, and those policies themselves were open to serious questions. There is an underlying assumption that the Bank properly understood the nature of the crisis and correctly identified the long-term policies required in response to it. Given the Bank's habitual arrogance on policy matters, it is perhaps unrealistic to expect much self-reflection on that score. However, it should treat its situation in the sovereign states where it operates with greater responsibility than is implied here. It is hard to avoid the conclusion that it was wilfully taking advantage of a powerful position at a vulnerable time in those countries. That may have been a standard way of operating in the years of structural adjustment, when client countries were open to foreign pressures due to the Debt Crisis, but it is no more justified now than it was then.

Discussion: the World Bank's approach to the food price crisis.

Judged by its usual standards, the World Bank's operational response to the Food Price Crisis was phenomenally fast. Maybe because it sensed that the crisis put its whole approach both to agriculture and to international trade in question, the Bank made sure that its interpretation of it was publicised quickly and its agenda for dealing with it was well known from the start. Then, abandoning its usual practice of exhaustive studies and prolonged consideration of project proposals before they are accepted, it set up a system which was able to move from initial planning to getting aid on the ground within three months. This looked like turning a supertanker round in the space of a rubber dinghy.

But it does leave two questions open. The first is whether the Bank should have been involved in emergency operations at all. Some of the 'lessons learned' by the GFRP suggest that in switching to emergency mode, the Bank made some serious errors, quite probably due to lack of relevant experience. As we shall see in the next section, the FAO – with specialist offices in capital cities throughout the developing world – reached twice as many countries in a few months as the Fund and the Bank have done between them in three years, and on a fraction of the GFRP's budget. GFRP has reached only 35 countries, and the GAFSP so far only 12. But there were 82 LIFDCs in 2008, all of them eligible for IDA concessional loans on income grounds, and all affected by the crisis to some degree. The FAO reached 80 countries, but two-thirds of the GFRP's expenditure was devoted to just four.

The World Bank does not make a very clear distinction between what is needed in the short term (emergency aid of some sort) and the long term (development), but these requirements can push in different directions – for example, in the use of

[50] World Bank (2010), pp. 24-25. Emphasis in the original.

fertilisers and food aid in-kind as emergency aid. This will be discussed in more detail later.

On the other hand, at one point the Bank brought forward the deadline for payments under GFRP, because of concerns that it might substitute for the Bank's regular programmes. That brings us to the second question: how valid was the Bank's interpretation of the crisis itself, and therefore by extension the policy measures required to respond to it? We have already suggested that the crisis actually called the Bank's approach to agriculture and trade into question, and that implies that a conventional World Bank policy approach might also have been unsuitable. This question is further addressed in Section 5 of this briefing.

4. Other international bodies

The IMF's function is financial, and not concerned with either food or agriculture. However, under the CFA the World Bank's activities have been accompanied by parallel programmes in several other multilateral and bilateral agencies. This section gives a brief description of those programmes in order to see how the IFIs' programmes relate to them.

- **FAO: Initiative on Soaring Food Prices**

The ISFP was established in December 2007 with a budget of US$1.7bn. It spent around US$350 million of it in 2008 and benefited nearly 7 million smallholder farmers and their 35 million dependants by April 2009.[51] It assisted the authorities of 58 countries in analysing food security nationally and upgrading plans for it. This was 23 more countries than the Bank's GFRP reached. Most of this was aimed at medium- and longer-term programmes for agricultural growth. But it also included the US$30m quick-response TCP, which operated in 80 countries to distribute inputs such as seeds and fertilisers to vulnerable smallholder farmers, mostly free of charge. The TCP claims to have supported over 500,000 households, or 2.5 million people, with over 80,000 metric tons of seeds, fertilisers and agrochemicals, 2.6m seedlings and cuttings, and 57,000 live animals.

The FAO is responsible for implementing 30 projects totalling €228m (US$330m) under EUFF finance. These are in 28 countries in Africa, Asia and Latin America.

- **World Food Programme**

Contributions to the WFP increased from US$2.7bn in 2007 to US$5.0bn in 2008, although they fell back to US$3.8bn in 2010,[52] reflecting the decline between mid-2008 and mid-2010 in the world market prices of staple foods, which are the WFP's biggest cost. It has been pointed out that 'Since June 2008, the financial resources mobilised for the food crisis through the WFP ($5.1 billion) are almost double the amount mobilised by the WB, FAO and IFAD together (2.78 billions).'[53] In other words, despite rhetoric to the contrary, the international community's most generous response to the crisis has been in the provision of short-term food aid rather than programmes to assist poor countries' own farmers or work towards longer-term solutions.

- **EU Food Facility**

The EUFF was set up in December 2008 with a budget of €1bn (US$1.45bn) over three years from 2009-11, in order to bridge the gap between emergency aid and

[51] WFP (2009).
[52] www.wfp.org/about/donors (June 2011).
[53] Brock and Paasch (2009), p. 31.

medium- to long-term development aid. Its aim is to assist 50 priority countries and the largest recipient so far has been Ethiopia with €45.4m (US$65.7m). Over €550m of the Food Facility's funds are channelled through international organisations, including the FAO, UNRWA and UNICEF. Its third phase includes €165m to support national budgets and €60m going to regional organisations for such things as trade facilitation and the 'harmonisation' of policies and regulations. Tellingly, its 2011 project review was published by the FAO.[54]

- **USAID**

Like some other agencies, USAID first set up an emergency response programme and then followed this up with a better funded programme that aims to help countries to develop and implement food security investment plans. The President's Food Security Response Initiative (PFSRI) was set up in June 2008 for two years. Its budget of US$770m included US$590m for emergency humanitarian purposes and US$190m to support medium-term measures to increase agricultural productivity, alleviate transport and supply chain bottlenecks, and promote market-based systems.[55] At the G8 Summit in 2009 the United States pledged another US$3.5bn for the fight against hunger, and the result was the 'Feed the Future' programme, set up to support agricultural development and food security over three years from 2009-12.[56]

5. Policy pointers

It is difficult to make conclusive judgments of what has and has not worked in this area while sitting at a desk in England, without doing any prior monitoring and evaluation of the aid *in situ*. Nevertheless, some pointers about the general lines of policy and implementation seem clear.

The decision-makers of the CFA and the World Bank seem to have little considered whether the practice of encouraging poor countries to import food should be called into question, even though the crisis was actually caused by global spikes in the prices of crops. Throughout the era of globalisation, some countries – notably China and India – have managed to feed large populations from domestically produced food, thereby freeing up foreign exchange for other purposes, including development.

From another point of view, a market crisis in a local crop, untraded on world markets, will remain local rather than spreading round the world like the wheat, rice and maize price spikes. Yet those three are the only food crops that the World Bank refers to. As FIAN pointed out, 'traditional and local knowledge about plants and crops is left behind and not prioritised by any institution', although 'a diversity of locally grown crops can increase production, as it takes advantage of local climate conditions and uses marginal land.'[57] This is part of the reorientation of agriculture required for the future, but it has been largely ignored by the big donors.

There has been a strong emphasis – especially in the initial, emergency phase of intervention - on mineral and chemical inputs, including fertilisers, and the 'supply' of seeds rather than assistance for the local development of them. Yet in 2008 there were even sharper price spikes on the oil and fertiliser markets than for cereals; and if continued, this emphasis risks sustaining countries' dependence on

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[54] FAO (2011).
[55] www.usaid.gov/our_work/humanitarian_assistance/foodcrisis/ (June 2011).
[56] www.feedthefuture.gov/commitment.html (June 2011).
[57] Brock and Paasch (2009), p. 22.

commodity imports as well as damaging their soil in the long run and exacerbating climate change. As FIAN also pointed out,

> 'The World Bank spent almost half of its resources (dedicated to the food crisis response) on the distribution of inputs (and more if taking into account Balance-of-Payment support for government measures to boost production), the FAO dedicated almost all additional funds to seeds and fertilizers, and the IFAD also almost exclusively focuses on production increase.'[58]

There is by now sufficient evidence that agroecological practices can produce as good results as input-dependent agriculture, while saving further large sums in the foreign exchange required to import those inputs. The 2010 GFRP Progress Report does recommend 'promotion of integrated soil nutrient and water management and conservation farming techniques along agro-ecological zones and farming systems requirements, including conservation farming and minimum tillage', but this is among six recommendations for 'Improving the technical efficiency of fertilizer use'.[59]

Meanwhile the Bank exhibits a rather narrow conception of Social Protection, aiming to provide a 'safety net' for the most vulnerable people only. As FIAN's study again put it, with reference to all the big donors:

> 'Disregarding the right to food, the CFA - as well as all examined programmes – does not aim to reach every single hungry child, man and woman, but rather aims to exclude every person who is not in absolute need and could potentially abuse the system. Targeting, efficiency, and conditionality are placed over effectiveness.'[60]

On the other hand, the Social Protection component seems, rather strangely, to have strayed into the areas of tax and trade policy. From the 'lessons learned' it can be inferred that the Bank recognises this was a mistake and that the 'policy advice' component should have been 'the obvious choice to support food tariff and tax reductions'. But the mistake was made, no doubt distracting government officials from the actual social measures which were the main task of this component of the GFRP.

On the policy side we see a concomitant admission that the Bank 'exploited' (its own word) a situation of crisis in order to instal its preferred policies for the long term. Further reductions in food import tariffs (plus reduced government revenues as domestic taxes were cut) were encouraged at the same time as all restrictions on staple food exports – which aimed likewise to sustain domestic supply – were being vehemently denounced. All of these trade aspects of food security should be re-examined by the Bank for their impact on long-term food security.

More broadly, between the various programmes created since 2008 the lines of funding, cross-funding and accountability are complicated and unclear, as numerous donors have financed each other and the *locus* of final decisions has shifted between the CFA, the HLTF, G8, G20, the World Bank and the IMF. Since the introduction in 2010 of a revamped Committee on Food Security at the FAO, the lines of command and control and ultimate decision-making seem to have become even more blurred. It is sometimes hard to untangle what funding is on grant and what on loan, and why. In the middle of 2011, however, one thing is apparent: the World Bank makes no reference anywhere to the CFS as the main

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[58] World Bank (2010), p. 31.
[59] *Ibid.*, p. 23.
[60] *Ibid.*, p. 27.

decision-making body, despite a clear international decision to that end only one year ago.

The ‘appropriateness and suitability’ of assistance provided by the IFIs can be assessed in either of two ways. One is to examine the speed of delivery, degree of take-up in recipient countries and other operational aspects of the assistance after it was decided upon. The second approach would test the assumptions that lie behind the responses, including those concerning the very nature of the crisis. Under that approach, the first questions to ask in assessing donors’ responses would concern the nature of the crisis itself and then what actually needs to be done about it.[61] In this respect, the relative price changes since 2006 can be read as meaning it was above all a crisis of oil- and mineral-based ‘conventional’ agriculture. If that is so, then the responses to it would be very different from those offered under the GFRP or almost any of the international donors’ programmes.

Finally, here is a summary of the main issues raised in this paper:

- There was some change in the IMF’s macro-economic policy advice and conditionality but it affected the details, not the main substance;
- The Bank manipulated a vulnerable situation in client countries to impose its own policies at a time when they could be most seriously called into question;
- The Bank’s social protection lending focused on the short term, was too obsessed with demographic targeting and largely ignored long-term safety nets and related issues;
- The Bank’s agriculture lending appeared to be inadequately adapted to specific country needs and focused too much on a high external-input model, which may be unsustainable;
- The Bank’s lending was very concentrated, omitting the majority of LIFDCs. At the same time the GFRP’s largest project seems to have encountered logistical difficulties. Surely this sort of distributional work in an emergency would be better left to those organisations which already have relevant experience and facilities for it.
- More recently, there is no sign of any will to coordinate with the CFS, or even any mention of it, despite international decisions to that end.

[61] Some proposals are offered in Lines (2011).

Abbreviations

CFA	.	Comprehensive Framework for Action
CFF	.	Compensatory Financing Facility (IMF)
ECF	.	Extended Credit Facility (IMF)
EFF	.	Extended Fund Facility (IMF)
ESF	.	Exogenous Shocks Facility (IMF)
EU	.	European Union
EUFF	.	European Union Food Facility
FAO	.	UN Food & Agriculture Organisation
GAFSP	.	Global Agriculture and Food Security Programme (World Bank)
GFRP	.	Global Food Crisis Response Fund (World Bank)
GRA	.	General Resources Account
HIPC	.	Heavily-Indebted Poor Countries (IMF)
HLTF	.	High-Level Task Force on the Global Food Security Crisis (UN)
IBRD	.	International Bank for Reconstruction and Development (World Bank)
IDA	.	International Development Association (World Bank)
IFI	.	International Financial Institution
IFPRI	.	International Food Policy Research Institute
ISFP	.	Initiative on Soaring Food Prices (FAO)
IMF	.	International Monetary Fund
LIC	.	Low-income country
LIFDC	.	Low-income food-deficit country
PFSRI	.	President's Food Security Response Initiative (USAID)
PRGF	.	Poverty Reduction and Growth Facility (IMF)
PRGT	.	Poverty Reduction and Growth Trust (IMF)
PSI	.	Policy Support Instrument (IMF)
SBA	.	Standby Arrangement (IMF)
SCF	.	Standby Credit Facility (IMF)
SDR	.	Special Drawing Right (the IMF's quasi-currency)
TCP	.	Technical Cooperation Programme (FAO)
UN	.	United Nations
UNDP	.	UN Development Programme
UNICEF	.	UN Children's Fund
UNRWA	.	UN Relief and Works Agency (in Palestine)
USAID	.	United States Agency for International Development
WFP		World Food Programme

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