

U.S. Response to Rising Food Prices in Developing Countries

Since mid-April, the Bush Administration has provided and requested nearly \$1 billion in new funds to bolster global food security. These funds will be used to provide both immediate humanitarian assistance and longer-term development assistance, primarily in Africa. Recent actions include President Bush calling upon Congress to provide an additional \$770 million to support international food aid and development programs on May 1, and his directing on April 14 that approximately \$200 million in emergency food aid be made available through the Bill Emerson Humanitarian Trust.

I. Immediate Humanitarian Assistance Response.

The Administration's immediate humanitarian assistance response consists of several elements, including:

- Approximately \$200 million from the Emerson Trust. Following the release of wheat from the Bill Emerson Humanitarian Trust announced by the President on April 14, USAID began the process of ordering commodities for the most urgent and severe emergencies, including in Afghanistan, Ethiopia, Kenya and Zimbabwe.
- \$395 million in P.L. 480 Title II funding. This augments the U.S. government's primary food aid program and will help meet increased prices, thereby maintaining robust support for the millions of people currently receiving USG emergency food aid. The additional funds will also address new needs in urban and rural areas due to the increased food prices.
- \$225 million in International Disaster Assistance (IDA). This support will aid the most vulnerable rural and urban populations that are now unable to meet minimum nutritional needs due to a lack of buying power. These funds will be used to address urgent non-food humanitarian needs, as well as local and regional purchases of food aid. The focus of this assistance for the most vulnerable populations would increase their ability to buy food and includes:
 - Local rural and urban cash for work programs,
 - Increased opportunities to earn income , and
 - Targeted voucher distribution for vulnerable families including widows and destitute households to increase access to food.

We will support critical feeding programs and other essential services when effective safety nets do not exist or are overwhelmed, particularly in urban areas.

- Immediate humanitarian assistance efforts will focus on countries that:
 - Have been flagged as countries of concern by international organizations;
 - Are highly dependent on food imports;
 - Have high poverty levels coupled with weak or non-existent safety nets;
 - Have significant food price inflation; and
 - Have US-funded operations in-country to speed aid delivery.

II. Measures to Support Agricultural Development Programs

- \$150 million in Development Assistance for USAID. These funds will be used for programs to increase the future availability of key food staple commodities in targeted partner countries, including those that have potential to become “bread baskets” in their regions. The funds will be used to work, along with other donors and host governments, toward the goal of doubling production of key food staples in these targeted countries and doubling trade of food staples within their sub-regions by 2013, consistent with market principles.

This comprehensive and integrated approach to make food more affordable and available will focus on:

- improving agricultural productivity for key food staples,
- alleviating transportation, distribution and market bottlenecks to make markets and trade work, and
- promoting sound, market-based principles.

Development assistance to attack underlying causes of the food crisis will initially focus on Africa. Assistance will target countries that have the capacity to:

- Rapidly increase staple food supply within their own borders, and potentially in surrounding countries through expanded trade;

- Leverage significant investments from other sources, including the private sector ;
 - Ensure a rapid supply response due to open market policies and trade incentives; and
 - Have the greatest impact on reducing prevailing high levels of poverty.
- These programs will seek to make advances in three areas:
 - **Improving productivity in agriculture:**
 - Increase the capacity of private sector seed and fertilizer industry, including thousands of new micro and small enterprise traders, through public-private alliances
 - Increase the area under production using new GMO crop varieties already approved by target countries (e.g., maize and sweet potatoes in Kenya)
 - Improve post-harvest handling, packaging and storage of food staples working through local producer and farmer associations, processors and enterprises.
 - Immediately increase seed multiplication and distribution of new rice varieties that resist drier conditions for poor farmers in Asia and Africa.
 - Disseminate and apply improved farm management practices such as improved planting and harvesting techniques that increase output per land and labor inputs
 - Ramp-up distribution of new wheat varieties resistant to stem rust
 - **Strengthening Markets, Trade and Transportation**
 - Increase access to finance for traders, agro-processors and food storage warehouse managers
 - Expand agriculture market information exchange networks using radio and cellular messaging
 - Connect farmers to regional transport trade corridors through support to farmers associations and cooperatives
 - Change border post procedures to significantly decrease clearance times.

- **Promoting sound market-based principles in countries and sub-regional organizations:**
 - Support the privatization of the fertilizer and seed input distribution systems
 - Help regional organizations establish common seed laws to allow for free flow and trade of improved seeds
 - Support establishment of common regional food quality standards and grading.

Questions and Answers

General questions on food crisis:

Q. Why are food prices rising, and will they stay high?

- Food prices have increased for a variety of reasons, including:
 - Steep increases in input prices (such as fertilizers, pesticides, seeds, fuel);
 - Large increases in transportation costs;
 - Two years of poor harvests;
 - Export controls in many countries;
 - Low world grain stocks;
 - Reduction in global agricultural research and development; and
 - The unprecedented – and very welcome – economic growth and associated increase in demand worldwide, and especially in developing economies.
 - Increased demand due to biofuel production.
- We expect several of these contributing factors will persist for the foreseeable future and that many countries in the developing world will remain vulnerable to the impact of high food prices for several years.

Q. Why are we calling this a crisis?

- According to the UN Food and Agriculture Organization, their global commodity price index increased by 69 percent from 2000 to 2007, and increased an additional 35 percent in the first quarter of 2008.

- The most obvious risk associated with rising food (and fuel) costs is the impact on the world's poorest citizens. Rising food costs are dramatically increasing the number of people who are falling below the poverty line. The typical American spends slightly less than 14% of total expenditures on food. In contrast, Africans spend 43% of their expenditures on food and those subsisting on less than one dollar per day in Sub-Saharan Africa may dedicate as much as 70% of their expenditures to food.
- [If asked] An estimated 1 billion people currently live on less than a dollar a day; 162 million of these live on less than 50 cents a day. Thus, even small increases in food prices will have a significant impact on these individuals.

Q. [If asked] Key statistics on global food security

- 1 billion people live on less than a dollar a day (International Food Policy Research Institute, 10/07)
- 162 million people live on less than 50 cents a day (International Food Policy Research Institute, 10/07)
- 100 million people newly poor due to increased food prices (World Bank, 04/08)
- WFP is targeting 73 million people for food assistance globally in 2008 (WFP, 05/08)
- 32 million people received emergency Title II assistance in 2007 (FFP, 04/08)

Q. But aren't rising prices a good thing for farmers?

- The trend toward higher prices for cereals and high-value produce should offer small farmers in developing countries new opportunities to increase their incomes. However, in much of the developing world—and in Africa in particular—significant constraints to productivity and trade remain. The funds requested by the President will help address these constraints and harness rising prices to stimulate economic growth.

President's announcement and steps taken to address the crisis:

Q. Doesn't this crisis require more than just additional funding?

- Yes, the President also stated that the international community must move forward on a number of other fronts to address this crisis by:

- Concluding an ambitious Doha Round agreement that reduces tariffs and other trade barriers, as well as market-distorting subsidies, which increase the costs of food to poor consumers everywhere;
- Removing export restrictions that prevent needed food from reaching the most vulnerable consumers and reduce producers' incentives to increase production;
- Removing unnecessary barriers to the development and dissemination of biotechnology and other advanced crops that have the potential to dramatically increase food supplies in a safe and environmentally-friendly way.

Implementation of the Funding

Q. How many people do we expect to assist with this money?

We will work with other donors, NGOs and host governments to focus on the most vulnerable populations.

Q. How long will it take to get initial emergency food shipments to overseas ports?

Once funds are made available, it takes approximately 4-6 months to procure, ship and transport the food to the people who need it. This is true for both the Emerson Trust as well as P.L. 480 resources.

Q. Why local procurement and how will it work?

- While the majority of USAID's emergency food aid contributions will originate in the United States, the ability to procure food locally provides another tool to address food insecurity.
- Purchasing some of our food aid needs locally can help to increase developing country productivity in the agriculture sector-- making food more available and more affordable.
- Buying locally can put money into the hands of small-holder farmers, helping to ensure that they have the resources they need to plant and harvest during the next season.
- Local procurement will support other medium- and longer-term supply-side measures that USAID will undertake to address the underlying causes of the food crisis.

- Local purchase also generates savings by reducing transportation cost, especially with rising fuel prices. Those savings could be used to expand food purchases.

Focus on Africa

Q. Why focus development assistance on Africa?

- Three-quarters of the world's ultra poor, those living on less than 50 cents a day, are in sub-Saharan Africa. These poor households spend the majority of their meager incomes on food, making them highly vulnerable to hunger and malnutrition when food prices increase.
- The vast majority of the countries in Africa are net food importers, making them highly vulnerable to price spikes.
- We have seen increasing emergency food aid needs in Africa over the past decade. This is partly due to emergencies such as Darfur, but also reflects increases in the number of people who are chronically food insecure and unable to withstand price increases.
- The countries in sub-Saharan Africa which will initially benefit from increased development assistance are those which face major food security challenges, but also have the potential to respond in ways that increase food supply. They also have the potential to contribute to regional market stability through increased trade in food staples, helping reduce shocks and prices.

Q. What is CAADP?

- CAADP (The Comprehensive Africa Agriculture Development Program) is a strategic framework for achieving agricultural growth and food security in Africa. Under CAADP, African governments assess whether their investments, as well as the investments of donors and the private sector, are increasing agricultural productivity and broad-based agricultural growth.
- The CAADP “compact” or investment plan establishes goals and benchmarks for investments as well as for results, and its governmental peer review process encourages economic governance and accountability.
- For the U.S. government, CAADP provides a vehicle for stakeholder coordination and the possibility of leveraging a much greater impact from investment in agriculture in Africa.

Q. But does it make sense to buy food in Africa to relieve a food crisis in Africa?

- Yes. Much of the hunger in Africa is due to infrastructure and policy constraints which hinder the movement of food from areas with food surpluses to areas where there are food deficits—both at a country level and regionally. Helping smaller farmers access markets, and linking these markets to needs in deficit areas can stimulate production, create economic growth and reduce vulnerability.
- We will ensure that local procurement actions are not displacing or disadvantaging the private sector, but rather promote fair prices and trade practices.
- Local procurement will only be used when it supports other operational requirements, namely the provision of adequate and timely food assistance to the most vulnerable.

Miscellaneous Questions

Q. Will any of the supplemental development assistance be used to support research and development?

- Yes. USAID currently invests in research on rice at the International Rice Research Institute in the Philippines, research on wheat stem rust, and the collaborative research programs at U.S. universities. The increased funds will further support this agricultural research and its application, expanding the use of readily available new technologies and management practices to increase agricultural productivity.
- Over the past 30 years, USAID investments in agricultural research to increase yields and production of food staple crops such as rice, wheat, maize, cassava, sorghum, millet, peanuts, cassava and other crops and livestock have produced numerous advances in technologies and management practices that fueled the Green Revolution. Increasing access to these advances for Africa's smallholder farmers will directly contribute to increased agricultural productivity in Africa.

Q. But if it is really a “supply” problem, why not look at big producers like Brazil, Argentina, Australia and the United States? What plans does this Administration have to permanently expand agricultural capacity in developing nations?

- In developed countries, producers are already responding to higher prices, and the resulting market-based production gains will help increase food availability.
- By investing in increased agricultural productivity in key food-insecure countries that have the capacity and policy environments to produce more, we can increase the supply of food, the affordability of food, and the ability of low-income, food insecure populations to purchase food.
- Productivity growth in agriculture will generate demand for goods and services. This in turn stimulates broader rural economic growth and increases the number of people experiencing income gains and improved food security.

Q. How long does USAID anticipate it will take to implement the \$770 million? If this includes long term support, what mechanisms will the Agency implement? Is this a multi-year plan? Will the Administration be requesting funding for FY10 and beyond for this initiative?

- The bulk of the \$770 million requested is for immediate emergency requirements, with \$150 million of the total amount targeted for expanding agricultural development programs in targeted countries.
- Countries will be targeted because of their commitment to appropriate policies and their potential for rapidly increasing the production and trade of food staples.
- The level of funding for FY 2010 and beyond has not yet been determined.

Q. Does this new money reduce WFP's funding gap?

- While we can't predict today where the needs for emergency food assistance will be greatest, or which NGO or UN organization will have the best capacity to meet those needs, it is expected that a significant portion of these funds will go to WFP.
- Generally, WFP receives around 70% of Title II emergency food aid resources.
- We are also pleased that WFP has indicated that its recent appeal has been completed and applaud the generosity of all the nations that contributed to it.
- It is important to remember, the United States is the largest provider of emergency food assistance in the world.

[Background: WFP has announced a \$755 million funding gap. However, not all of this is for emergencies. A significant portion is for lower-priority, non-emergency programs.]

Impact of Congressional Action

BACKGROUND: The President requested \$350 million for PL480 Title II in the FY 2008 supplemental. Congress may appropriate as much as \$850 million.

Q. Does the Administration still need the \$350 million for food aid identified in the President's supplemental request?

- Yes. The FY 2008 supplemental request, which includes \$350 million for food aid, is under consideration by the Congress. The supplemental request was developed before the most recent price increases occurred. Even with the Bill Emerson Humanitarian Trust draw down, the supplemental funding is needed to address unanticipated emergencies. The Administration urges Congress to act quickly on this request.

Q. What will USAID fund if \$850 million rather than the requested \$350 million is provided in the FY 2008 supplemental for PL 480 Title II food aid?

- It is premature to speculate about increased funding at this point.
- If additional funding is approved, we will provide food aid where it is most needed.
- There are a number of large emergencies where assessments are ongoing or will soon begin, and we need to see how these situations evolve.

Q. Will the Administration oppose a bill that includes additional funding for the food aid and food security that is greater than the Administration FY 2008 supplemental request?

- The Administration supports funding for food aid and for programs that will help produce more food staples and trade, which is why the President requested \$770 million in the 2009 bridge request. It is Congress' prerogative to act on that request in the manner they deem is appropriate and within the reasonable funding levels requested by the President.

Q: Why did the Administration request additional funding for this food crisis in the 2009 bridge supplemental when you say the funding is needed urgently? Why didn't the Administration request these funds in 2008?

- The funding we requested will address urgent needs in FY 2009. That is why the President sent up the 2009 bridge supplemental on May 2, 2008, well before the beginning of the fiscal year. The Administration's supplemental requests for 2008 and 2009 request the resources necessary to address the global food crisis.

Country-specific issues

Q. Will any of the \$770 million or draw down on the Emerson Trust be used to fund assistance in [Haiti, Burma, Somalia, etc]?

- USAID will determine which countries are most in need through their famine early warning system, through personnel stationed throughout the world, and in consultation with other donor and international assessment units. Our emergency response is always focused on those who are in greatest need. Assistance to increase agricultural productivity will be targeted to where USAID determines it will have the greatest impact.
- USAID has made an additional \$12 million available to WFP in support of food aid needs in Burma.

North Korea: Food Aid

Q. It has been reported that the Commodity Credit Corporation (CCC) purchased 26,270 mt of soft white wheat and 11,000 mt of hard white wheat for export distribution to north Korea and shipment between May 27-31. How does this fit into the broader food aid package for North Korea announced earlier this month? Please provide any further information you can share about this procurement and shipment.

- As USAID announced on May 16, the United States and the DPRK have concluded negotiations on a protocol for the resumption of U.S. food aid.
- The U.S. intends to provide the DPRK with 500,000 metric tons in food commodities distributed partially by the World Food Programme (400,000 metric tons) and partially by U.S. NGOs (100,000 metric tons) as they fully implement the protocol.
- A U.S. Delegation will meet with DPRK officials over the next week in Pyongyang to work out operational details in preparation for the resumption of food aid assistance, which is expected to commence in June pending successful implementation of next week's meeting.

- In the meantime, the United States has taken initial steps to procure commodities, including the purchase of 37,000 metric tons of wheat that would be used for export to north Korea with the successful implementation of this program.

If asked:

Q: When would this food aid shipment of wheat take place?

As the U.S. Government announced on May 16, and with the successful implementation of our upcoming meeting in Pyongyang, we would expect our bilateral food aid program to commence in June 2008 and run for a period of 12 months.

Q: How much does this food aid shipment of wheat cost?

Commodity and freight costs for this shipment of 37,000 tons of wheat amount to approximately \$22 million.

Q: Has the United States taken any other steps to procure additional commodities?

The United States is also in the process of procuring corn for export to north Korea that would be used for this program.

Q: Many countries are suffering from food shortages. Why is North Korea getting special attention?

- The United States is active in responding to humanitarian needs all over the world.
- The U.S. policy on food aid is based on three factors: 1) level of need in a given country; 2) competing needs in other countries; and 3) our ability to ensure that aid is reliably reaching the people in need.
- We are responding to a situation of dire need. A combination of floods last year and agricultural policy problems have resulted in what private American experts call north Korea's worst food aid crisis in a decade.

- North Korea itself estimates that it is one point five million (1.5 million) tons short of its minimum requirements to prevent critical food shortage conditions. The WFP and other organizations estimate that the gap may be even larger.
- North Korea has been experiencing an ongoing state of chronic malnutrition for a decade, leading to an increase in disease and illness. It has led to problems in the growth and development of North Korean children. The current food shortage exacerbates an already dire situation.

Agriculture program funding levels

Q. Why has USAID underinvested in agriculture programs for decades? What will you do to reverse this trend?

- Current estimated FY 2008 funding for USAID and Department of State agriculture programs is \$415 million, a level that is below the Administration's FY 2008 request.
- In addition to the President's request for new resources, State and USAID are currently examining options for reprogramming some existing FY 2008 funds to address the current situation.

BACKGROUND: Agriculture is one of the sectors that is NOT subject to Congressional earmarks and directives. Therefore any funding that is provided for agriculture programs comes out of the discretionary funds that remain after earmarks and directives are met. This has resulted in cuts to Agriculture programs in Africa even as overall funding for the region has increased.

- In recognition of the importance of these programs, in FY 2009, the Administration is requesting an increase of \$108 million for agriculture programs, including an additional \$78 million for agriculture programs in Africa.

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