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Global Food Insecurity and Price Increase

Situation Report #1, Fiscal Year (FY) 2008

May 1, 2008

BACKGROUND

In the past year, global food prices have increased an average of 43 percent, according to the International Monetary Fund. Since March 2007, wheat, soybean, corn, and rice prices have increased by 146 percent, 71 percent, 41 percent, and 29 percent, respectively, according to the U.S. Department of Agriculture.

A number of factors have contributed to the rapid spike in global food prices. In China, India, and other emerging markets experiencing rapid economic growth, consumers are increasing their demand for food, oil, and energy supplies. Rising energy costs have directly raised the cost of agricultural production. Adverse weather-related events have lowered crop yields, particularly affecting wheat harvests. Depreciation of the U.S. dollar accounts for part of the increase in U.S. food prices, while increased production of biofuel has raised the price of corn.¹

Approximately 1 billion people—or one sixth of the world’s population—subsist on less than \$1 per day. Of this population, 162 million survive on less than \$0.50 per day. At the household level, increasing food prices have the greatest effect on poor and food-insecure populations, who spend 50 or 60 percent or more of their income on food, according to the International Food Policy Research Institute (IFPRI). Overall, increased food prices particularly affect developing countries, and the poorest people within those countries, where populations spend a larger proportional share of income on basic food commodities.

Responses to global food price increases range from harmful to beneficial policy measures. The varied responses include restricting exports, imposing price controls on imports, eliminating tariffs, permitting genetically modified foods, and increasing food assistance to populations most in need. On April 14, President George W. Bush directed the Secretary of Agriculture to provide an estimated \$200 million in international emergency food aid through USAID, in addition to other FY 2008 funds also allocated to the provision of food assistance. On May 1, President Bush requested that Congress approve an additional \$770 million in food aid, for a total of nearly \$1 billion in additional funding in 2008.

NUMBERS AT A GLANCE		SOURCE
Worldwide Population Subsisting on Less Than \$0.50/day	162 million	IFPRI – 2007
Worldwide Population Subsisting on Less Than \$1.00/day	Approximately 1 billion	IFPRI – 2007

USAID FUNDING COMMITTED TO ADDRESS FOOD INSECURITY AND PRICE INCREASE

USAID Food and Related Assistance Worldwide in FY 2007	\$1,620,422,634
USAID Food and Related Assistance Worldwide to Date in FY 2008	\$1,475,127,549
Additional USG Funding Announced on April 14, 2008	\$200,000,000
Additional USG Funding Requested on May 1, 2008	\$770,000,000

CURRENT SITUATION

Reduced Availability of Food Aid

Commodity and ocean freight costs are increasing globally. As the majority of donors’ food aid budgets are directed toward these costs, price increases in commodities and transport are reducing the tonnage of food aid that donors can contribute to populations in need.

USG Support for Food Aid

The United States is the world’s largest food aid donor and provides approximately half of all food aid to populations throughout the world. In recent years, the USG has provided approximately \$1 billion through the U.N. World Food Program (WFP), or approximately 40 percent of all contributions to the organization. The USG contributes significant international food aid through non-governmental organizations (NGOs). The USG also looks to other donors to provide food aid to populations in need.

¹ Increased biofuel production accounts for approximately three percent of the overall increase in global food prices.

Countries Most Affected by Increased Costs

Through the USAID-funded Famine Early Warning Systems Network (FEWS NET), and in conjunction with USAID missions around the world, USAID is monitoring the impact of price changes in developing countries. Increased costs will most greatly impact the estimated 1 billion people who are surviving on less than \$1 per day. At present, more than 30 countries throughout every region of the world are experiencing localized food insecurity, lack of access to food, or shortfalls in food production or supplies. Civil unrest over increased food prices has occurred in multiple countries, including Haiti, Egypt, Indonesia, Cameroon, and Peru.

In March 2008, WFP issued a list of 30 countries identified as likely to experience the biggest changes in food security due to price increases. Of these 30 countries, 22 are in Africa. Other organizations, including the U.N. Food and Agriculture Organization (FAO) and the International Fund for Agricultural Development, have created similar lists of countries most likely to be affected.

Impact on USG Emergency Programs

Food aid programs funded by the USG have varying commodity and transport costs and require different commodities depending on nutritional needs and local tastes. USAID always seeks ways to reduce costs or use lower cost commodities. USAID is continuing to review planning to ensure that resources are allocated to the highest priority needs. The USG has a strong commitment to ensure that food aid is available in key countries with highly vulnerable populations such as Sudan and Somalia. On May 1, President Bush reiterated his previous request to Congress to support a proposal to purchase food assistance directly from farmers in the developing world.

Responses to Food Crisis

In response to recent increases in food prices, some governments are instituting price controls and export barriers. These efforts will likely be counterproductive in the longer term by inhibiting production and trade. The structural causes of food insecurity will require a broad response to these trade measures in developing countries, by reducing internal market barriers and barriers to trade and increasing incomes and production. Policy advice, technical assistance, and long-term donor-funded development programs will assist developing countries.

While food aid can assist populations with emergency needs, such assistance is a limited resource and will not address all of these challenges. In the short term, food aid is not likely to lower food commodity prices, and poorly implemented food aid programs could distort local markets.

USG RESPONSE

Current USG Programs

Administered by USAID, the P.L. 480 Title II program is the largest U.S. food aid program. In FY 2007, the USG provided more than 2.1 million metric tons (MT) of P.L. 480 Title II commodities, worth \$1.54 billion. Food assistance provided under this program reached an estimated 32 million beneficiaries throughout the world.

On April 14, President George W. Bush directed the Secretary of Agriculture to draw down on the Bill Emerson Humanitarian Trust to meet emergency food aid needs. With this action, the USG made available an estimated \$200 million in emergency food aid through USAID. USAID is also committing an additional \$40 million as a bridge to further funding to be announced on May 1 by President Bush. This additional food aid will address the near term impact of rising commodity prices on U.S. emergency food aid programs. This assistance will be used to meet unanticipated food aid needs in Zimbabwe, Ethiopia, Afghanistan, Haiti, Bangladesh, Somalia, Mauritania, Uganda, and Sudan. WFP and NGOs will distribute this assistance.

Planned USG Programs

With the additional funding requested by President Bush on May 1, the USG will fund short-term humanitarian assistance programs to preserve price parity in existing food aid programs, provide funds for local purchase of food aid, and support voucher programs in urban areas or help smallholder farmers to obtain fertilizers and seeds in order to plant crops.

Supported by part of the additional \$770 million requested on May 1, urgent medium-term measures will aim to increase agricultural productivity, alleviate transport and supply chain bottlenecks, and promote market-based systems. Programs to increase agricultural productivity include, for example, support to local research on new technologies to grow staple foods and initiatives to build capacity of the private sector seed and fertilizer industry. To alleviate bottlenecks, USG-funded programs will focus on, for example, increasing access to finance and agribusiness services, expanding the agricultural trade and information network, and establishing a stronger trade infrastructure. Initiatives to promote sound, market-based principles include, for example, establishing common regional seed laws.

Coordination

The USG is committed to working with other donor countries and international organizations to leverage U.S. funding to combat global food insecurity and price increases. The USG plans to work with WFP, international financial institutions, other G8 members, and NGOs. Other donors are already making contributions to support urgent humanitarian and development needs.

USAID FOOD AND RELATED ASSISTANCE WORLDWIDE IN FY 2007

<i>Implementing Partner</i>	<i>Activity</i>	<i>Amount</i>
USAID/OFDA ASSISTANCE¹		
U.N. Organizations, NGOs, and Other Organizations	Agriculture and Food Security	\$58,132,727
U.N. Organizations, NGOs, and Other Organizations	Nutrition	\$20,289,907
TOTAL USAID/OFDA		\$78,422,634
USAID/FFP ASSISTANCE		
WFP, NGOs, and Other Organizations	2,106,000 MT of P.L. 480 Title II Emergency Food Assistance	\$1,542,000,000
TOTAL USAID/FFP		\$1,542,000,000
TOTAL USG FOOD AND RELATED ASSISTANCE WORLDWIDE IN FY 2007		\$1,620,422,634

USAID FOOD AND RELATED ASSISTANCE WORLDWIDE TO DATE IN FY 2008

<i>Implementing Partner</i>	<i>Activity</i>	<i>Amount</i>
USAID/OFDA ASSISTANCE¹		
U.N. Organizations, NGOs, and Other Organizations	Agriculture and Food Security	\$14,336,085
U.N. Organizations, NGOs, and Other Organizations	Nutrition	\$4,791,464
TOTAL USAID/OFDA		\$19,127,549
USAID/FFP ASSISTANCE²		
WFP, NGOs, and Other Organizations	1,445,000 MT of P.L. 480 Title II Emergency Food Assistance	\$1,456,000,000
TOTAL USAID/FFP		\$1,456,000,000
TOTAL USG FOOD AND RELATED ASSISTANCE WORLDWIDE IN FY 2007		\$1,475,127,549

¹ USAID/OFDA funding represents anticipated or actual obligated amounts as of April 28, 2008.

² Estimated value of food assistance.

ADDITIONAL USG ASSISTANCE IN 2008

<i>Implementing Partner</i>	<i>Activity</i>	<i>Amount</i>
ADDITIONAL USG ASSISTANCE ANNOUNCED IN 2008		
U.N. Organizations, NGOs, and Other Organizations	Additional USG Assistance Announced on April 14, 2008	\$200,000,000
U.N. Organizations, NGOs, and Other Organizations	Additional USG Assistance Requested on May 1, 2008	\$770,000,000
TOTAL ADDITIONAL USG ASSISTANCE IN 2008		\$970,000,000