



Food prices and the Future of Humanitarian Assistance

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Thank you very much for the invitation to speak here today.

It's a privilege to be asked to take part in WFP's global meeting this year, when the Programme has been so much in the front line - and in the *headlines* - over the past 12 months. I think WFP has commanded tremendous admiration and respect as it has achieved so much, on so many fronts, during the global food price crisis:

- in the large increase since 2006 in the number of people receiving help from the Programme,
- in the way WFP has mobilised additional financial resources from non-traditional donors,
- and in the way it's really set the global agenda on the issue.

So it's with humility - and a certain amount of trepidation - that I join you here this morning. In the next 20 minutes, I'm going to skip over the reasons why food prices have emerged as such a major issue, as I think we're all by now familiar with the list - and instead focus on what lies ahead.

In particular, I want to look at three inter-linked questions:

1. What does the crisis currently engulfing world financial markets mean for us?
2. Second, in the medium and longer term, are the food price rises we've seen over the last few years just a temporary blip, or the beginning of a new normality?
3. And third, what does all of this mean for humanitarian assistance and the work of the World Food Programme?

1. The financial crisis

So let's start with the credit crunch. As we've all seen, this week has been the most dramatic yet, as the crisis has moved from the US to the rest of the world, and from credit markets into equity markets, commodity markets and elsewhere.

On Monday, many stock markets saw their steepest falls in two decades: 7.9% in London, 9% in Paris, 10% in Jakarta, and 19.2% in Moscow.

Meanwhile, commodities - other than gold and precious metals, at least - are also falling steeply, on the back of fears of a global downturn: oil was down to \$90 a barrel yesterday, compared to a high in July of over \$141, while corn, wheat and soya all fell by between 5% and 10% on Monday as well.

So where is this all leading? While no-one knows for sure, we can organise the dissenting views into two broad schools of thought: one that thinks the credit crunch will lead to a nasty recession of perhaps two or three years, but that things will rebound after that; and another that says it's much worse than that, and that the world is heading for a deflationary bust like the one Japan had during the 1990s.

In either scenario, though, I think we can already identify four implications for development, humanitarian assistance and food.

First, donor countries are going to be facing a *dramatically* different situation in their public sector budgets from next year.

With the US Treasury's \$700 billion bailout plan now approved by Congress, the incoming US Administration will face a budget deficit of up to a trillion dollars next year, rather than \$300 bn as planned. Other donors will find their budgets constrained too - by falling growth, lower tax revenues and probably also higher public debt. In the UK, for example, public borrowing next year is likely to have to rise from an expected £43 bn to £100 bn or more.

All this means that governments will have less to spend – so we should start worrying now about what that means for development assistance. While it remains to be seen whether those governments that have committed to spending 0.7% of national income on aid will row back on those commitments, it now looks much likelier that for example climate adaptation costs will come out of aid budgets, rather than being additional to 0.7% - as they should be.

This shift will be compounded by the second implication of the credit crunch: change in public attitudes. So far, the full impacts of the financial crisis have yet to hit the real economy in developed countries. But when they do, they will accelerate a switch that we can already see, towards more priority on issues that are 'close to home', and less on global issues like development and climate change.

Third, the financial crisis will obviously hit growth in developing countries. Monday's stock market falls hit developing country exchanges hardest: the benchmark MSCI emerging markets index, for example, fell 11% as investors fled for safety. Meanwhile, the debate about whether developing countries in Asia and Africa have 'decoupled' from developed countries seems to be ending, with the conclusion that developing country growth is not immune from a downturn in the wider global economy.

That brings us to the fourth likely implication: a reduction in commodity prices for the duration of the global downturn (however long that may be) as demand for them falls. As I've mentioned, futures prices for grain crops are already falling; we can expect that trend to be supported by falling energy prices, which will reduce some of the pressure on food that's come via fertiliser prices, transport costs and demand for crops as biofuels.

2. The medium to long term outlook

So there are four possible implications of the credit crunch. What about the medium to long term outlook - assuming that over the short term, we're looking at the scenario of a one or two year downturn, rather than a longer period of deflation?

Earlier this year, OECD and FAO published an outlook report which looked ahead to 2017, and argued that food prices would gradually start to resume their long term decline - even if on average they remain higher than before the recent spike.

So far, recent events seem to support that analysis. While prices do remain much higher than pre-spike levels, the FAO food price index peaked in March this year, and then stayed level through the summer; that's before the falls over the last couple of weeks are taken into account.

However, the OECD-FAO report made three very important assumptions.

- First, it took *no* account of climate change in its projections, because of the extent of uncertainty about its impacts.
- Second, water scarcity was also omitted.
- And third, it assumed that oil prices would stay between \$90 and \$105 for the next decade.

Unfortunately, there are good reasons to think that in fact, these three resource scarcity issues will actually be extremely important in shaping the medium and long term outlook for food.

Start with **climate change**. Some sceptics argue that a bit of global warming will over the next few decades will *improve* crop yields, at least in higher latitudes; and in fact, the IPCC agrees. Unfortunately, though, lower latitudes – where of course most developing countries are situated – will start see lower crop yields more or less immediately.

And on top of temperature, other impacts will also have a negative effect on crop yields: reduced water availability and increased extreme weather events (like droughts, floods and hurricanes) being just a few examples. Overall, the IPCC reckons that climate change will cause an increase of 40 to 170 million undernourished people.

Second, there's **energy**, which as we know is linked to food in myriad ways: from fertiliser manufacture and on-farm energy use to supply chain transport needs and of course biofuels.

As I've already mentioned, oil prices have fallen from their peak of \$141 to \$90 yesterday, just below the bottom end of OECD and FAO's projected range.

But if we look to the longer term, the underlying supply fundamentals look set to stay very tight. Global production has stubbornly remained around 85 million barrels a day in recent years, despite soaring demand. Massive investment is needed in new oil production – around \$22,000 billion of it, according to the International Energy Agency, or half of last year's gross world product – but so far, that investment isn't happening. Yet without it, a recent study concluded, we could be looking at \$200 oil – and hence at very much costlier food.

Third, there's **water**, which will probably be the scarcity issue that makes most impact over the next decade. Demand has tripled in the last fifty years. As population grows and per capita consumption rises, less is available per person. Climate change will make matters worse, as glaciers melt and rivers and lakes have less water available. At the same time, the price for unsustainable groundwater extraction from aquifers and water tables is already coming due in many parts of the world. Already, half a billion

people live in countries chronically short of water; by 2050, this will rise to more than 4 billion.

On top of these three issues, there's also **land availability**. To meet the 50 per cent increase in demand for food that the World Bank projects by 2030, we'll need to expand not just agricultural productivity, but the amount of land used for crops as well.

Unfortunately, that's easier said than done. FAO thinks that there's only 12 per cent more arable land available – and there are plenty of demands for it from other uses besides food.

I've touched on biofuels, which will use up a third of the US corn crop this year – and which will grow as a source of demand over time if oil prices rise over the medium term as I've suggested.

On top of that, there's demand for land to produce paper and timber; for land to plant new forests to reduce CO2 levels in the air; land to conserve biodiversity; and of course land for the world's growing cities, a particular challenge given that cities tend to grow on the most productive land.

All this is before we take into account erosion and desertification – FAO reckons 16 per cent of the land we use now is already degraded – and the reality of sharply rising populations and shrinking average farm sizes in many developing countries.

3. Implications for WFP and humanitarian assistance

So there are four resource trends – land, water, energy and climate change – that matter very much for world food supply between now and 2030.

On top of them, we have a global population due to rise to 9.1 billion by mid-century, and a growing global middle class with rising affluence and expectations.

So while prices may be set to fall for now, because of the credit crunch and the prospect of a global downturn, I would argue that over the medium and longer term, they're set to continue their recent rise – and that the stage is set for a lot of turbulence in agricultural production and world food markets.

What then does all this mean for WFP and for humanitarian assistance?

First, the obvious point: in this period of more turbulence, we need to get used to dealing with much more **uncertainty**. We can't predict everything that will come at us – but we can do more to *anticipate* it. Lack of evidence shouldn't hold us back from thinking about what-ifs – including what would be involved in a rapid scale-up of the humanitarian system's capacity if we find the risks tending towards worse rather than better cases.

Second, it's clear that much investment is needed in **helping developing country governments and communities to build resilience and reduce risk**. WFP has been ahead of the curve on this for a long time, whether in early warning, mapping vulnerability, helping communities to adapt to climate change, building safety nets or supporting local capacity building for disaster response.

But today, we need to be mainstreaming that focus on resilience through the *whole* of the development community.

A lot of good work is happening on different dimensions of resilience in developing countries – adaptation, disaster risk reduction, conflict prevention, peace-building, participatory governance, social protection and so on – but it doesn't always add up to more than the sum of its parts. We need the wider donor community to ask: what would a more thorough, comprehensive approach to helping build resilience in partner countries look like?

As they ask that question, they need to bring a political economy approach back to the heart of their analysis. We've had a long period in which donors like the World Bank have sometimes seemed to focus on resource transfer to the exclusion of really understanding the drivers of change in partner countries – as if development was something that could be 'bought' rather than being an organic, inherently political process.

In particular, I'd argue that the growing importance of *scarcity* issues will require donors to place much more priority on governance regimes for natural resources like land, water, fisheries and forests, and to look at the politically charged questions involved of who owns them, who has access to them, who gets to trade them and so on. It's on questions like these that the future success or failure of conflict prevention strategies will increasingly depend.

This political dimension also poses some **questions for humanitarian donors**, as the line blurs between humanitarian assistance and longer term development.

For example, look at WFP's increasing move into social protection strategies. While social protection is very much a logical progression from emergency relief – from response to prevention – it always comes with politics attached.

At best, social protection can have a transformational political impact, driving progressive social change and building a social compact in which the state reduces people's risks in return for commitment to the state through tax and so on.

On the other hand, the reasons why 80% of the world's population lacks access to social protection systems are also political: middle classes frequently oppose social protection systems because they fear it will encourage a culture of dependency, for example.

As humanitarian agencies become involved in social protection, they will also – inevitably – find themselves involved in domestic political debates in developing countries; at times, that may have implications for perceptions of their neutrality. That's not a reason not to do it – but it is a reason to have storylines ready from the outset, to explain how humanitarianism is evolving towards more of a prevention focus, and why this is absolutely consistent with WFP's core mission.

This leads into a wider point about the overriding importance of **communications** – especially in sustaining both donor and public support for humanitarian assistance.

WFP is already in a superb position from a communications point of view. It has a reputation for a no-nonsense, can-do approach. It's seen as an agency that can deliver. And as I've already mentioned, it has really led the food prices debate over the past couple of years.

Looking ahead, I think communication remains *central* to the challenges WFP will face in the next few years.

One core challenge is communications on **finance**. I've mentioned the effect the credit crunch will have on government budgets. So we need to ensure that governments don't get the chance to use it as an excuse to backslide on their commitments – a trend of which there were some worrying signs at the Secretary-General's Call to Action event in New York last month.

Another communications challenge is shaping the **global collective action** agenda. This summer, we had three summits heavily focused on food – the FAO summit in Rome, the G8 and the Geneva trade talks – which all failed to produce concrete outcomes. We need a tougher focus on what governments need to agree – especially as security of supply becomes a bigger consideration in trade policy – and WFP has a huge amount to contribute to that debate.

Finally, we need an overall **narrative** to frame the process of global transition we're all involved in.

As we head into this period of turbulence, there are real risks for humanitarianism if the overall political narrative becomes dominated by fear - of increasing instability, of scarcity, of conflict with different regions, ethnicities or nationalities.

Fear is fertile ground for kneejerk policy responses and for publics focusing on 'people like us' rather than a wider humanitarianism. As humanitarians, we clearly have a big stake in promulgating a different storyline, stressing transition to a new stable state rather than just the new instability.

So we should emphasise how much we've achieved on hunger – reducing the proportion of hungry people from over a third in the 1960s to 17% today, even as global population has risen.

We should stress that as global population heads towards stabilisation at 10 billion in the year 2200, the challenge is more a case of 'one last push' than of constantly running to stand still.

And right now, we need to keep underlining that the current 'perfect storm' is as much of an opportunity as it is a threat.

Throughout human history, turbulence is always an opportunity for change – and change always comes with turbulence. If we can make the eradication of hunger central to the way people understand the turbulence that lies ahead, then we'll have woven a narrative that our successors can harvest for generations to come.