RISING FOOD PRICES: IFC’S RESPONSE

The Challenge

The world continues to experience a dramatic increase in food prices. In December 2010, the FAO Food Price Index surpassed its peak in June 2008, reflecting increases in world prices of all food commodities. This follows the food crisis of 2008 when international nominal prices of all major food commodities reached their highest levels in nearly 50 years.

Rising food prices are causing severe hardship for millions of people who are already affected by chronic hunger and for the poor who now find themselves unable to buy the food they need for a healthy life. This may lead to renewed social unrest across the developing world, destabilizing the economies of many countries.

Several factors have converged to push food prices to historic highs. Some stem from long-term fundamentals—more consumer demand from emerging markets and a greater emphasis on biofuels as a source of renewable energy as well as underinvestment in agriculture. Higher energy prices have increased costs and bad weather have reduced harvests in some regions. The U.S. dollar’s decline and the attractiveness of agricultural commodities as an asset class amid financial turmoil have also driven up prices—even as some of the major food-producing countries have imposed export bans and trade restrictions. Although the food market situation differs from country to country and future evolution remains highly uncertain, projections suggest that food prices are likely to remain high in the next few years.

IFC’s Response

With food prices expected to stay high, any long-term strategy to stabilize them should include more agricultural production. Within the World Bank Group, IFC is leading efforts to engage with the private sector and find ways of increasing production.

IFC’s strategy is market-driven and private sector–led. It entails providing investment and advisory services to the agribusiness sector on the supply side and to the food retail sector on the demand side both directly to companies along the agribusiness supply chain and indirectly through intermediaries.

IFC’s efforts complement the World Bank’s public sector work within the World Bank Group Agriculture Action Plan for Fiscal Years 2010-2012. The World Bank Group is committed to increase support for agriculture from $4.1 bln in 2008 to $6.2 bln - $8.3 bln annually by 2012. The key areas of focus include raising agricultural productivity, linking farmers to markets, reducing risk and vulnerability, facilitating agricultural entry and exit and rural non-farm income, and enhancing environmental services and sustainability.
High food prices offer opportunities for many emerging markets to grow and develop their agricultural sectors. This can help reduce poverty in rural areas, link local farmers to regional and global supply chains, increase local consumer access to competitively priced food products, and create new export sectors. IFC is working to help emerging economies capitalize on these opportunities, both in the short and long term.

Short-term Response

IFC’s short-term response focuses on:

- Investing in companies to boost production in middle-income countries with agribusiness potential, including Argentina, Brazil, Uruguay, Russia, Ukraine, and Kazakhstan.
- Working with an emerging class of agribusiness corporations from middle-income countries to transfer knowledge and technology to firms in less-developed economies.
- Working to maintain liquidity in supply chains by providing working capital facilities to agribusiness clients in good standing so that they can pre-finance inventories, seeds, fertilizers, chemicals, and fuel.
- Financing and advising financial institutions, microlenders, growers, and traders to increase access to credit for small farmers and rural microenterprises.
- Investing in modern food retailers in emerging markets that offer competitively priced food products.
- Strengthening the links between local suppliers and food retailers to provide locally produced goods at more competitive prices.

Long-term Response

IFC’s longer-term response focuses on improving the productivity and quality of production throughout the agribusiness supply chain. Components of IFC’s Action Plan include:

- Bringing more land to sustainable production.
- Improving productivity by transferring technologies and practices and increasing economies of scale in farm production and processing.
- Investing in agribusiness logistics and distribution infrastructure with both the private and public (through PPPs) sectors: this can facilitate trade, lower costs, and reduce post-harvest waste.
- Investing in food retail infrastructure, including modern processing, packaging and storage: this can enhance food safety, traceability and environmental sustainability and ensure competitive pricing.
- Improving water efficiency and irrigation infrastructure.
- Establishing wholesale agri-financing facilities with financial institutions, processors, and traders to increase rural access to credit.
- Developing and adopting modern financial instruments (warehouse receipts, crop insurance) for agriculture and for food retail.

Results

In FY10 (ended June 30, 2010), IFC’s investments across the agribusiness value chain – from farm to retail store – reached $2 billion, with over a third in low income countries. Investments in Africa’s agribusiness sector grew nearly 70 percent over the previous year. At the end of FY10 IFC’s agribusiness portfolio stood at $3.9 billion.