

Food price inflation, poverty, and inclusive growth in Asia

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Commodity Price Volatility and Inclusive Growth in LICs

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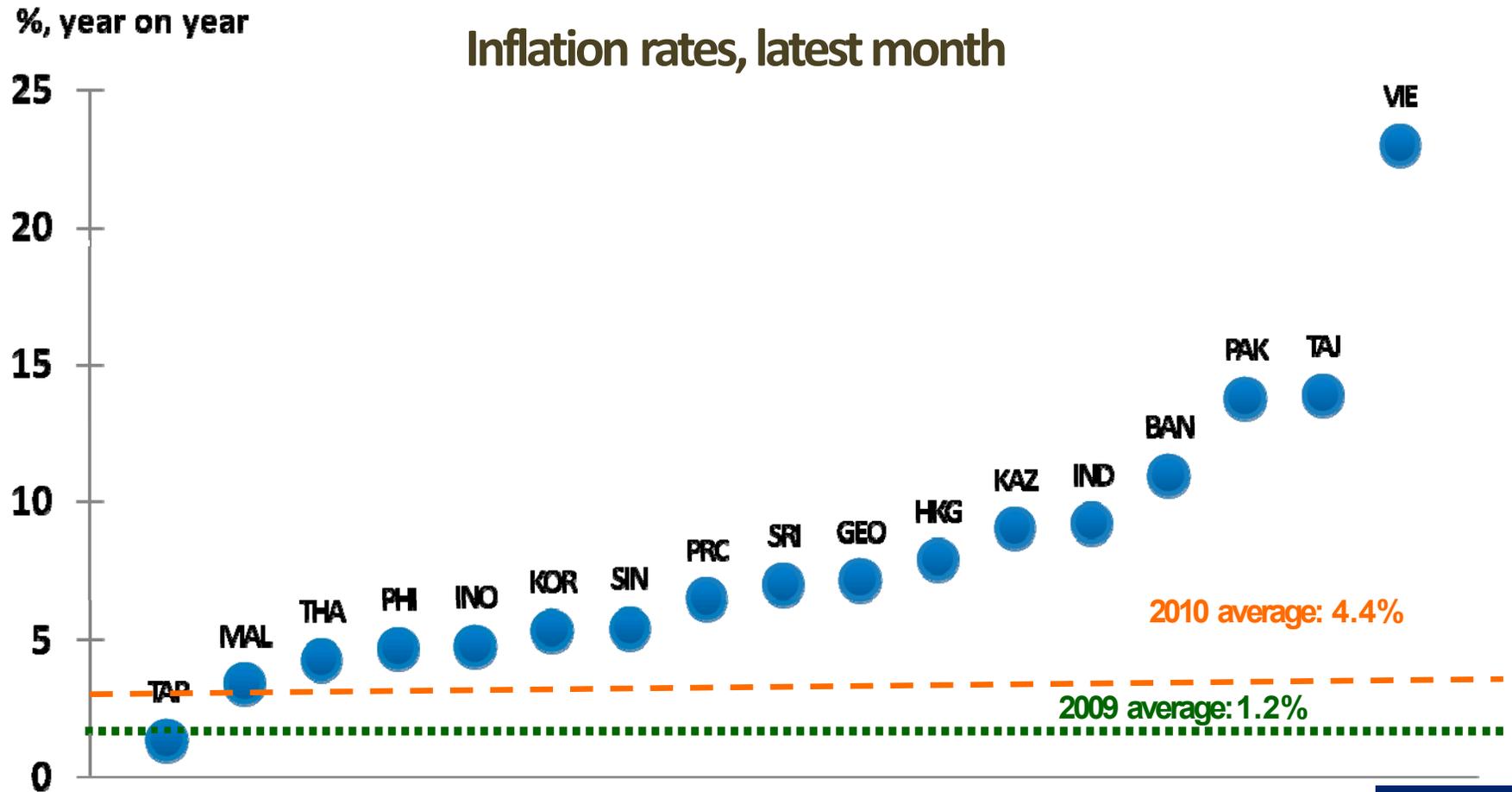
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Outline

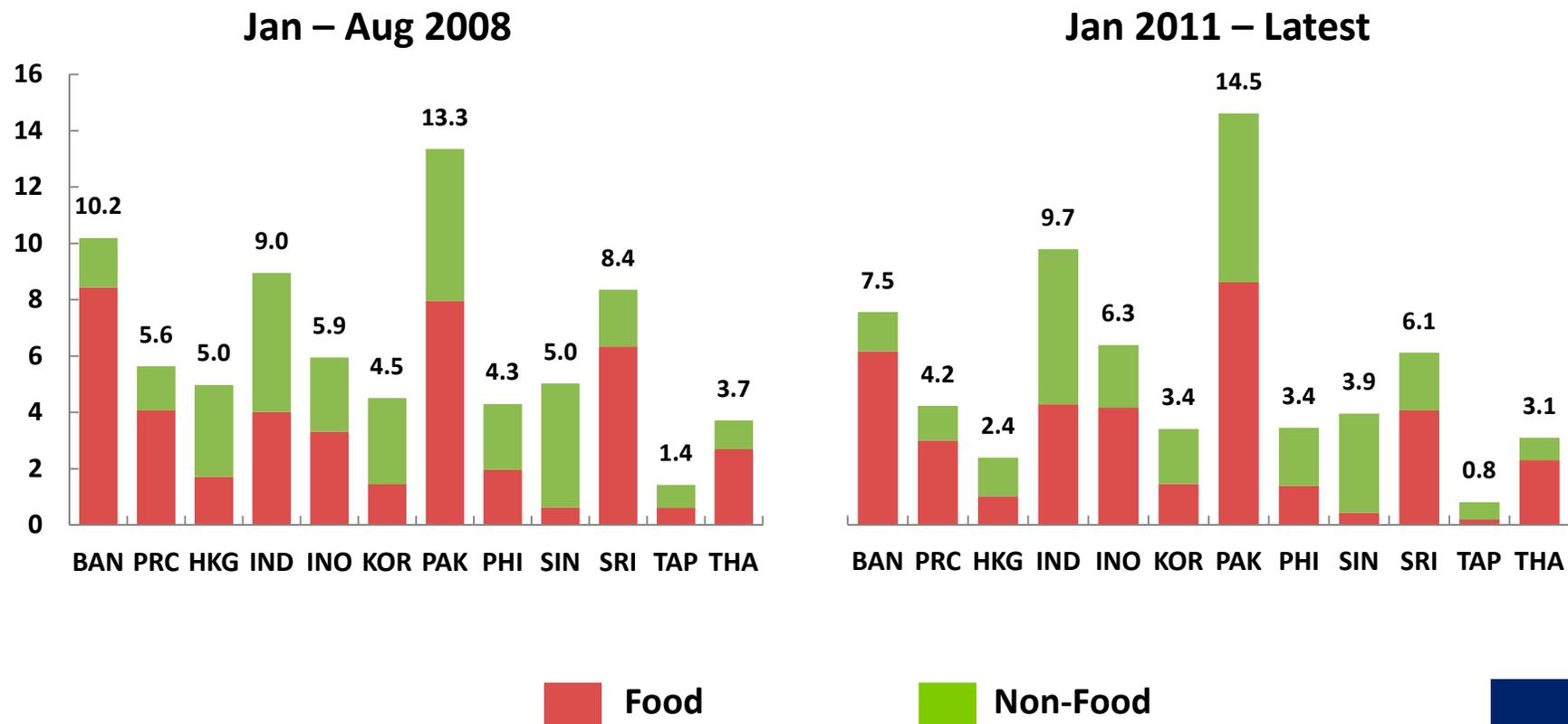
- Food price inflation is more than a macro issue – Impact on Poverty
- Key structural issues from an Asian perspective

Inflation is still a concern in Asia



...with food contributing heavily

Contributions to CPI Inflation
(percentage points)



Food matters more for Asia

Food share in CPI (%)

Economy	Share
Bangladesh	58.8
Philippines	46.6
India	46.2
Sri Lanka	45.5
Cambodia	44.8
Pakistan	40.3
Viet Nam	39.9
Indonesia	36.2
Thailand	33.0
Malaysia	31.4
PRC	30.2

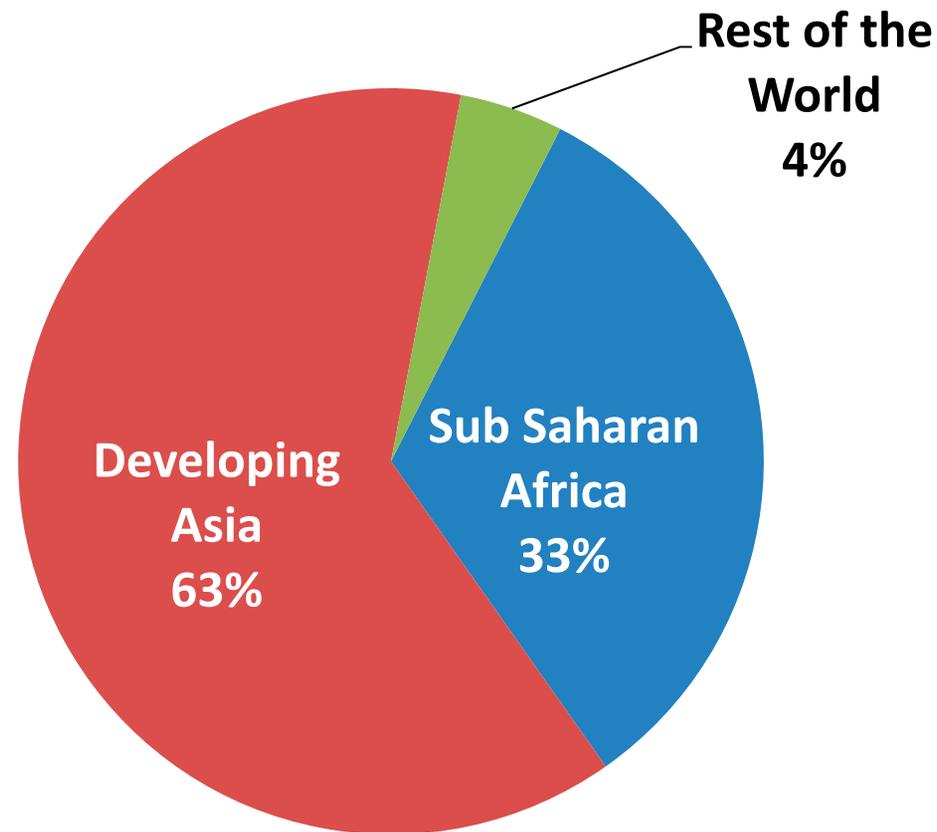
Economy	Share
United States	14.8
Eurozone	14.0
Japan	25.9

Source: ADB. 2011. Global Food Price Inflation and Developing Asia.



Asia is home to two-thirds of the world's poor

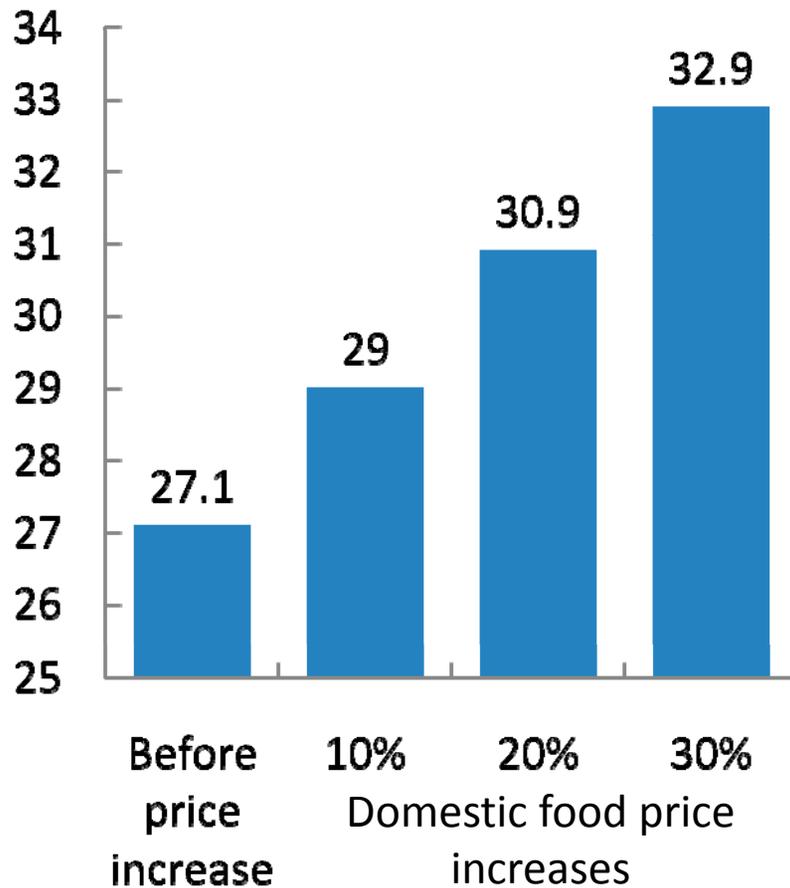
Share of population living below the \$1.25-a-day poverty line, 2008



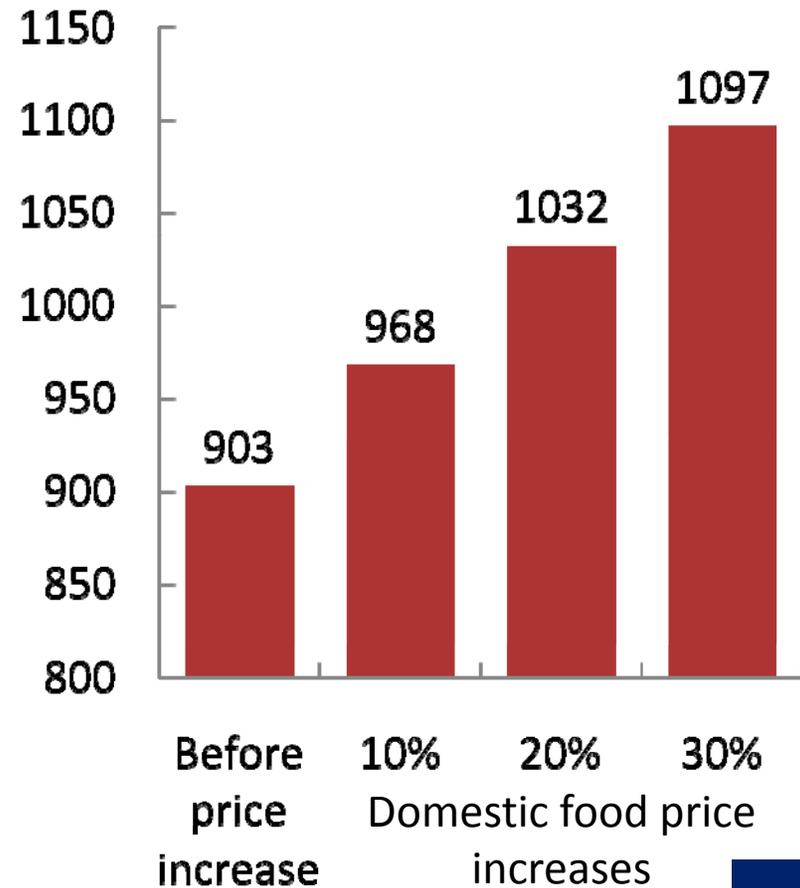
Source: 2011. Wan and Sebastian. Poverty in Asia and the Pacific: An Update

Food inflation could lead to rising poverty

Percentage of poor (%)



Number of poor (million)



Source: ADB. 2011. Global Food Price Inflation and Developing Asia. \$1.25 poverty line



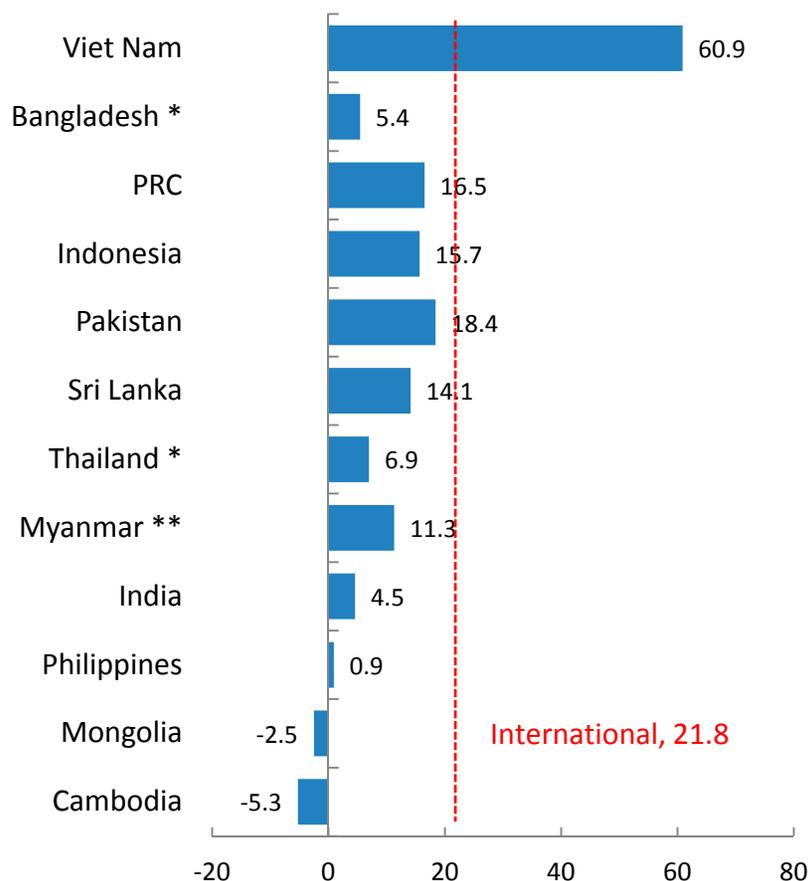
Key structural issues from an Asian perspective

(1) Resuming confidence in food trade is key

1. Food price volatility was much higher when trade was impeded
 - World War I
 - World War II
 - Breakdown of Bretton Woods regime in early 1970s
 2. Global rice trade is considered thin (averaging about 6–7% of global production) relative to wheat and maize
 3. Panic herd reaction and increasing reliance on self-sufficiency: Brunei Darussalam (from 3% to 60% target); the Philippines (aiming for 100% self-sufficiency by 2015)
- ⇒ **Zero-sum game with poor countries like the Sub-Saharan African economies (which import more than half of their rice from Asia) being most adversely affected**

(2) Fiscal option: Limit domestic price transmission...

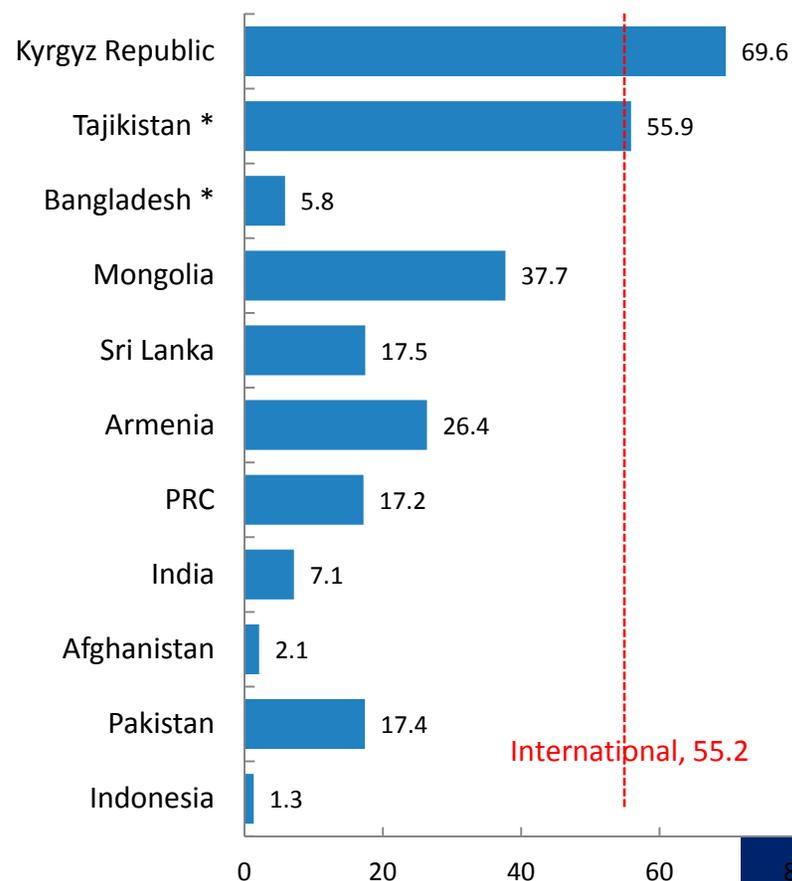
Increase in Domestic Retail Prices of Rice, July 2011 (% yoy)



Note: * June 2011, % yoy; ** May 2011, % yoy

Source: ADB staff calculations using FAO, Global price monitor. www.fao.org/giews/pricetool (accessed 30 August 2011).

Increase in Domestic Retail Prices of Wheat, July 2011 (% yoy)



...but this entails significant fiscal costs...

- In India, food and fertilizer subsidies account for 1.8% of GDP in 2009/10
- In Indonesia, the ratio is smaller at about 0.5% of GDP
- In the Philippines, the National Food Authority (NFA) spent over PHP70 billion in 2009 (nearly 1% of GDP) to stabilize food prices

⇒ **These subsidies are not small compared to the spending on social security and welfare in India and the Philippines (about 1% of GDP)**

...and benefits are not limited to the poor

- In the Philippines, 32% of the lowest income quintile were not able to access the NFA program; 15% of the highest income quintile have accessed the program
- Only 25% of the poor benefit from the NFA program; 48% are non-poor
- NFA rice geographic distribution is not sensitive to poverty incidence
- Highest leakage rate in urban NCR (87.8%); highest exclusion rate in urban areas outside NCR (45.8%)

- ⇒ **Replace general subsidies with programs targeting the poor (e.g., cash transfers, food-for-work, food stamps), but this is politically unpopular**
- ⇒ **Need for expenditure shifting – more public investment for agriculture and food sectors (irrigation water sector management, transport and trade logistics, etc.)**



(3) Regional reserve management

- ASEAN Emergency Rice Reserve (AERR)
 - 1979 agreement to address food emergencies
 - Initial earmarks totaled 50,000 tons from national food security stocks
 - Releases via bilateral negotiations
- East Asian Emergency Rice Reserve (EAERR)
 - 2004 pilot project to provide food assistance and strengthen food security in emergencies, and for poverty alleviation purposes
 - Implementation initially for 3 years from 2004, but renewed until 2010
 - Composed of: earmarked reserves (under AERR), now totaling 787,000 tons; and stockpiled reserves (rice stocks or in-kind donations to the rice reserve)

ASEAN+3 Emergency Rice Reserve (APTERR)

- Permanent reserve scheme built on EAERR
 - Regional cooperation in response to food emergencies
 - Permanent institutional framework
 - Governing council composed of country representatives
 - Decision making by consensus
 - Daily management by a secretariat
 - Financial contributions from members for support of overhead costs
 - Current pilot studies:
 - More transparent and accountable forward contract arrangements (Tier 1 program)
 - Introduction of a Rice Trade Forum
- ⇒ **Key: how to mobilize collective action and cooperation when local emergency occurs, which if not managed well could affect others**
- ⇒ **Good initiative to address crisis in individual countries, but insufficient for crises of regional proportions**



(4) Why farmers are not getting richer: Supply chains

Physical losses in traditional postharvest chain



Cutting, handling
1-5%



Manual threshing
1-5%



Sun drying
3-5%



Open storage
5-10%



Village milling
20-30%



Small retailers



Crop



Consumption

Quality losses resulting in 10-30% loss in value

Machine threshing
1-5%

Combine harvesting
1-5%

Mechanical drying
1-2%

Sealed storage
1-2%

Commercial milling
5-10%

Large retailers



Physical losses in mechanized postharvest chain

Food security solution not found just in the farm sector per se

- 50%–70% of Asian consumers' cost of food is formed in post-farm gate segments of food chains
 - Food prices more volatile domestically than internationally
 - 99% of food chain players are private sector (includes farmers)
 - Dis-intermediation at post farm level with 30%–50% of food retail being modern
 - Supermarkets in Delhi charge 15%–20% less for staples (rice & bread) & 10% less for basic vegetables
- ⇒ **The need for R&D is not just at the farm level (which was the case of the green revolution era) but at the whole food supply chain**
- ⇒ **Improving supply chains has other benefits in terms of absorbing surplus farm labor into non-farm employment opportunities – yet another opportunity for inclusive growth!**

Thank you

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