

# High Food and Fuel Prices

February 28th, 2011

# High Food and Fuel Prices Risk

## Structure of the presentation

### **Contextual Risk:**

Situation of high food and fuel prices and effect on vulnerable countries

### **Programmatic Risk:**

High Food and Fuel Prices together with Limited tools to mitigate risk leads to:

- a) *Increase in needs: more potential beneficiaries and more needs of actual beneficiaries*
- b) *Decrease in the impact of the actual Projects included in the Program of Work due to deterioration of purchasing power of contributions*

### **Institutional Risk:**

Due to limited tools to mitigate risk in the Programs:

- a) Incomplete Fulfilment of Mission
- b) Reputational Risk because of reduced Value For Money to donors

# Impact of High Food and Fuel Prices on Most Vulnerable

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February-March 2011

# Context

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- ◆ High food and fuel prices reduce purchasing power of both the hungry poor and those who try to assist them.
- ◆ Unlike 2008 the price shocks of 2011 are known and not affecting all countries in the same way.
- ◆ Sustained increase in fuel prices may be more damaging than only food commodity prices.
- ◆ Low and middle income countries which heavily rely on food and fuel imports are likely to be most affected.
- ◆ Challenge is to identify countries likely to be most affected both in terms of incidence and depth of food insecurity.



# Countries of Concern Due to Price Volatility



Afghanistan	Ethiopia	Malawi	Sierra Leone
Bangladesh	Gambia	Mongolia	Solomon Islands
Burundi	Ghana	Mozambique	Somalia
Cambodia	Guinea	Nepal	Swaziland
Central African Republic	Guinea-Bissau	Niger	Tajikistan
Chad	Haiti	Occupied Palestinian Territories	Tanzania
Comoros	Kenya	Pakistan	Togo
Congo, Democratic Republic	Lesotho	Papua New Guinea	Uganda
Djibouti	Liberia	Rwanda	Yemen
Eritrea	Madagascar	Sao Tome and Principe	Zimbabwe

# Risks

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- ◆ Inadequate Government capacities to respond to crisis;
- ◆ International financial facilities enable imports but not price rises at local level;
- ◆ Irreversible nutrition impact on the first 1000 days of life;
- ◆ Potential for social unrest;
- ◆ Back sliding of MDGs;



World Food Programme

# Implications at the Household Level

## Bangladesh

- Q4-2010 price of **coarse rice** is 42% above Q4-2009 and 75% above 5-years average pre-2008. Current **cost of the basic food basket** is 60% above pre-2008 levels.
- Coarse rice accounts for 72% of **energy intake**
- During 2008 food price crisis during harvest
  - **Food expenditures** increased from 52% in 2005 to 62%
  - Affected households **coping** by taking on more loans (33%)
  - **Stunting** rates increased from 43.2% in 2007 to 48.6% and **wasting** was 13.5% with an increase in severe acute malnutrition

## Guatemala

- Dec.2010 **maize prices** are 28% above Dec.2009
- Maize accounts for 40% of **energy intake**
- **Stunting** –54% in 2009:
- Underweight children – 37% of were severe cases as reported by the Ministry of Health in 2010.
- Situation to worsen as **employment** opportunities expected to significantly reduce

## Kenya

- Current **maize price** is 16% above pre-2008 5-year average.
- Maize accounts for 36% of **energy intake**. Kenya is the main cereal importer in East Africa with 70% of households relying on markets
- Sharp decline in **purchasing power** of pastoralists who now exchange two times as many goats to buy same quantity of cereals since the height of emergency in 2009
- **Wasting** levels of up to 32% in some arid and semi-arid areas (12/2010), **Underweight** 20.3% (2008-09), Coastal area – 11.2 and 28% respectively

## Yemen

- Current **price of wheat** almost at the level of November/December 2008 and 125% higher than June 2010. Q4-2010 price is 35% above Q4-2009
- Wheat accounts for 51% of **energy intake**
- With 96% of Yemenis relying on markets, the gradual price increase of wheat flour over the past 7 months affects **purchasing power** of the most vulnerable population
- High malnutrition rates in 2009/10: (**Wasting**: 13.2%; **Stunting** : 55.7%)

Context

Vulnerable Countries

Risks

Impact on HH

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# Programmatic/Institutional Risk

## Business Process

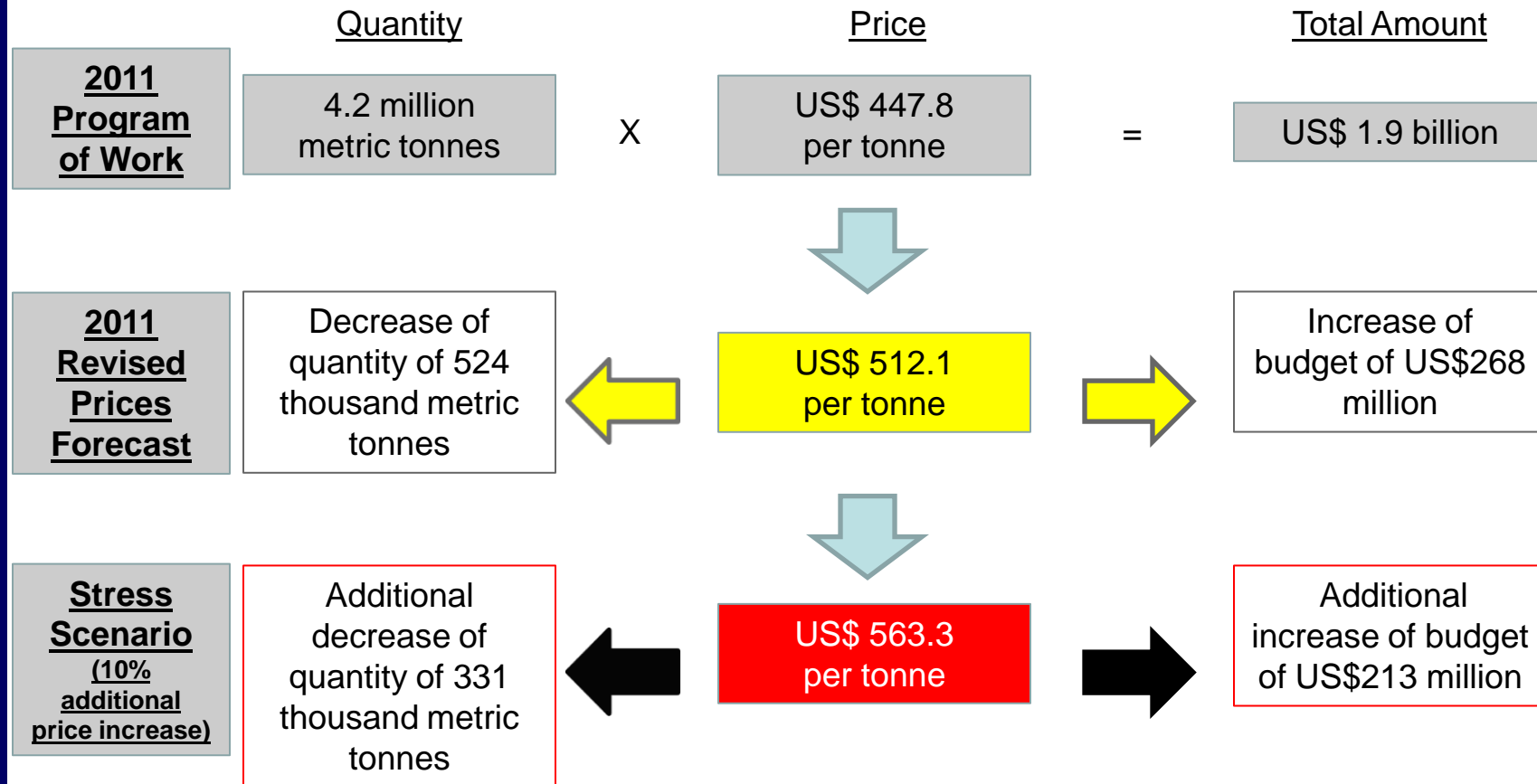
Projects operated by WFP are exposed to increases in prices:

1. Contributions are committed based on a Quantity of Food and on Expected Prices.
2. When cash is actually received, Prices can be different than Expected (on average it takes 7.6 months to receive the Contributions committed).
3. When Food is procured, Prices can be different than Expected (on average it takes 3 months to convert cash into food and services).

If Prices are higher than expected, less Quantity can be bought and fewer # of Beneficiaries can be reached

# Programmatic/Institutional Risk

## Potential Impact of Food Prices on 2011 Program of Work



# Programmatic/Institutional Risk

## Existing Mitigation Capabilities

- The only Mitigation tool we currently have is flexibility on Procurement and Logistics.
- However, this is ad-hoc and reactive, leaving an important residual risk.

Example of  
Mitigation in 2010

-WFP's ability to adapt the procurement and distribution process efficiently reduced the price increase effect in **ONE THIRD**.

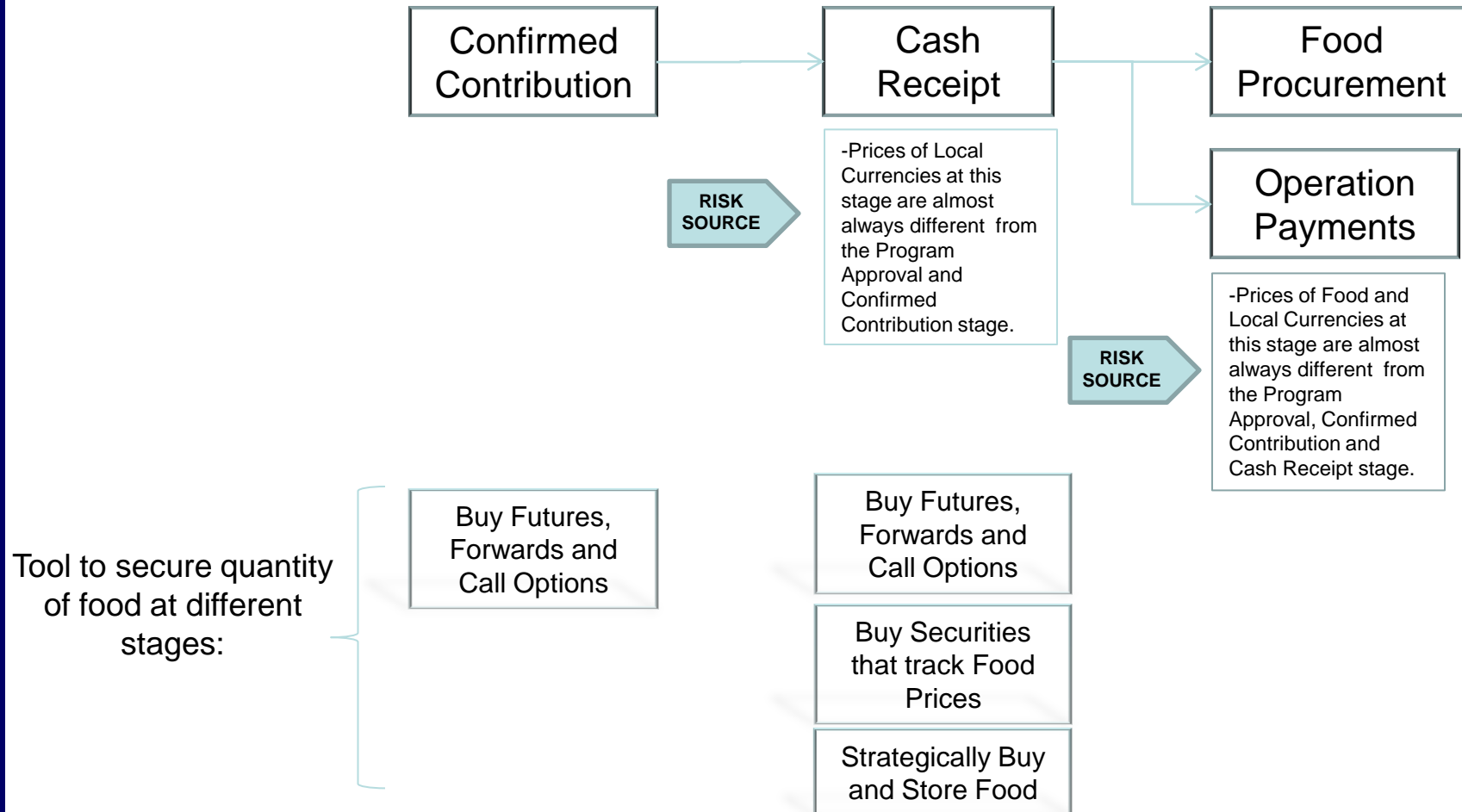
-However, this result can not always be guaranteed.

***-Structured, systematic and proactive tools have to be implemented.***

# Institutional Risk

## Potential Mitigation Tools

- Tools that WFP can use to **secure the quantity of food to be bought.**



# Institutional Risk

## Conditions needed to implement Mitigation Tools

- 1.- Modify WFP's rules and regulations
- 2.- Investment to upgrade WFP's capabilities
- 3.- Increase predictability of contributions: What?, When?, Where?
- 4.- Increase flexible, un-earmarked and multiyear contributions