

# **Impacts of the Global Economic and Financial Crisis on Food Security in Eastern Europe and Central Asia**

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## **Executive Summary**

The rise and fall and increased volatility of commodity prices, and especially food prices, have captured headlines and stimulated a wide range of analytical activity and policy discourse. It has caused and continues to cause hardship in many developing countries, has led to social unrest in scores of these countries and reversed progress toward the Millennium Development Goals (MDGs) hunger target of reducing the proportion of undernourished. Added to the food price crisis of 2008 was the financial crisis of 2009, which has severely depressed economic growth and the purchasing power of consumers, while also impacting food and agricultural markets through depressed demand and declining credit availability. All of these shocks are more severe for low income populations, especially in food deficit areas. The Food and Agricultural Organization of the UN (FAO) estimates that the number of undernourished increased by more than 40 million in 2008 and another 100 million persons in 2009, bringing the total number of undernourished in 2009 to 1.02 billion persons.

There has been a rather rapid transition from the period since World War II, of falling real prices of grains and food more generally to a new market environment in which commodity and food prices are higher, more volatile and more tightly linked to energy prices. Much of the market behavior seen during the past few years is linked to the growing interdependence of energy and agricultural markets. This market behavior and the conditions surrounding it are likely to continue, and the prospects of returning to the patterns of the previous decades are less likely.

World markets have turned around and many commodity prices have declined significantly from their peaks. However, they are still well above pre-surge levels; and this price retreat has yet to appear or is appearing more slowly in many developing countries, as seen in FAO's regional food price monitoring. It means that markets that are insulated from or not well integrated with world markets may not in the near-term see the benefits of increased world production or reduced prices in the world market. Moreover, it is clear that rising commodity prices have more impact on food prices of consumers in low income countries than on those in high income countries. Aside from the higher share of income spent on food, the commodity price itself is a larger share of the household food cost in a low income country.

Likewise, the food import bills grew faster in developing countries. The food import bill of developing countries and also for Lower Income Food Deficit Counties (LIFDCs) increased by over 36 percent from 2007 to 2008. It is estimated to return close to the 2007 level due to declining prices in 2009, but will still be well above the levels prior to 2007. The scarcity of trade financing during the current financial crises only compounds this problem.

The market conditions that have developed since 2005 and that seem likely to continue, even if food price increases have abated somewhat, this raises challenges and offers opportunities. The challenge is how to provide safety nets for the most vulnerable populations that have been thrust into a much more desperate financial situation because of higher food prices and economic recession. The opportunity is that higher prices offer a chance to increase incomes from food production in many rural areas where agriculture is the main source of income and employment.

The paper makes clear that food security has many dimensions that include: sufficient availability, means of households to access adequate food through self production or other sources, health and knowledge to appropriately utilize acquired foods, and stability of access in periods of shortage and financial stress. It does not mean that food is produced in the same country or in close proximity to the point of consumption, though local production becomes more important when poor infrastructure constrains the proper functioning of markets.

The anatomy of the food price surge and retreat is explored to gain a more comprehensive understanding of the factors leading to the food price surge and retreat. In the context of possible future developments, it is useful to understand, to what extent each of these factors is expected to be a persistent influence on markets and prices. A similar understanding is discussed for the macroeconomic crisis and recovery. How deep and how long will be the effects of the financial collapse and recovery? How fast or how slow the recovery is will greatly influence food security, especially for the most vulnerable populations. Most recessions are followed by a rather rapid recovery, but it is not clear that this one will fit the normal pattern or if we will bounce back in a few years to where we were heading before the crisis.

The different pathways by which the food price and financial crises can impact food security are elaborated. Aside from the obvious direct income and employment effects of an economic decline or stagnation, the character of this crisis has also taken a big toll on credit and financing needed for production and trade of food and agricultural products. The unusually uncertain path of recovery, if that is what happens, is an added threat to already vulnerable populations.

Conditions in the Eastern Europe, Turkey and Central Asia, vary greatly, so countries are classified and analyzed in groups according to the World Bank classification. Within this region there is a range of economic condition from low income (Kyrgyz Republic, Tajikistan, and Uzbekistan) to lower middle income (Armenia, Azerbaijan, Georgia, Republic of Moldova, Ukraine and Turkmenistan) to upper middle income (Belarus, Kazakhstan, Russian Federation and Turkey) and even one country which is classified as a heavily indebted poor country (Kyrgyz Republic), so conditions obvious vary widely. Likewise, the percent of undernourishment among these countries ranged from 26 to under 5 in the latest report by FAO on hunger, The State of Food Insecurity in the World (SOFI), so clearly there are great differences in the region.

To meet the challenges and to exploit the opportunities of this dual crisis, national and international policy actions are being recommended. These include the provision of social protection or safety nets to protect the citizens and especially the most vulnerable populations, which are hit the hardest by high food prices and financial losses. Another type of mitigation would be risk management tools, especially for farmers, so that there would be some risk sharing between the government and the producers. Although the policy reaction of many countries after the food crisis and again after the financial crisis was to slow trade opening or increase protectionism, increased trade opening through completion of the Doha Round of WTO negotiations would be a far better way to improve economic growth and turn around the economic slowdown. Such an achievement would help to restore trust in the international trading system, which suffered greatly as a consequence of this dual crisis.

There are also opportunities that have arisen from the food crisis in particular. Many countries in the region have many underutilized productive resources in agriculture that can be developed. Higher food prices help to provide incentives for increased production and higher productivity. If commodity prices remain high relative to those in the first years of this decade, it will be an incentive for further investment and R&D in agriculture. Governments as well as the private sector have a role in exploiting such opportunities.

It is still not clear to what extent the current crisis has affected the agricultural sector, although there are already preliminary indications that food security and agriculture have been impacted negatively in most countries of the region either because reduced income has impeded access, or because increased input costs and financing constraints have slowed production growth and reduced availability. Key recommendations are to improve safety net measures to cushion the biggest impacts of market and financial shocks in order to limit the

long term consequences on households and to enhance the enabling environment for farms and agribusiness to develop, such as improving financial services, technical support services, information services and risk management tools. This paper demonstrates trends in the region in terms of food security and agricultural sector sustainability and provides a set of initial recommendations that can be further elaborated in the future.