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Global food crisis: UNIDO's response

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Report by the Director-General

Reports on the implications of the global food crisis for UNIDO's programmatic activities and the measures taken by the Secretariat in response to decision IDB.34/Dec.6.

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Introduction

1. In decision IDB.34/Dec.6 the Industrial Development Board considered that the current global food crisis represents a serious and complex challenge affecting the world's poor. Accordingly, the Board requested the Director-General to prepare a report by mid-September 2008 on how UNIDO could best contribute to a system-wide solution of this crisis, and to present it at an informal meeting of Member States. The same decision requested that this subject be placed on the agenda for the thirty-fifth session of the Board for further discussion. This document reports on the implementation of decision IDB.34/Dec.6, and summarizes the principal features of this complex subject to facilitate further discussions by the Board.

I. The nature of the crisis

2. Global food prices have soared in recent years. The Food and Agriculture Organization of the United Nations (FAO) food price index rose by 9 per cent in 2006 and 23 per cent in 2007, with the world prices for staple foods recording particularly dramatic increases. From April 2006 to April 2007, the average world price for rice rose by 217 per cent, for wheat by 136 per cent, for maize by 125 per cent, and for soybeans by 107 per cent.¹ This surge continued into the early months of 2008, and although there has been a softening in more recent months, prices remain well above their 2006 levels and are not expected to weaken significantly for the foreseeable future.

3. The causes for these price increases are varied. On the demand side, they include an increase in consumption, especially in the more rapidly growing developing countries, and a diversion of some crops from food to fuels. On the supply side they include low stocks, rising energy costs, and declining production and productivity levels in many parts of the world due to adverse weather conditions and low investment in the agriculture sector. In addition, policy variables such as exchange rate movements and the imposition of trade restrictions are exacerbating the situation, as are speculative activities in the commodity markets.

4. The implications of these developments are dire. Food import bills of developing countries have soared, rising by 33 per cent to \$254 billion in 2007.² There are growing concerns that these increased food prices could reverse many of the gains in poverty reduction achieved in recent years and bring up to 105 million people into poverty. This poverty-inducing impact will be particularly severe in the least developed countries.

II. The international response

5. The international community has responded with urgency to the global food (price) crisis. At its meeting in April 2008 the United Nations System Chief Executives Board for Coordination (CEB) formulated a strategy based on the concept of "First, we must feed the hungry. Second, we must ensure food for

¹ Chicago Board of Trade.

² International Monetary Fund.

tomorrow” and issued a communiqué announcing measures to be taken by the United Nations system as a whole to meet immediate/short-term, medium-term and long-term needs. These proposed responses are summarized as follows:

(a) In the short to medium-term: Cooperate on crisis response, including the development of emergency safety nets, social protection programmes for the most vulnerable and rapid implementation of employment and income generation programmes;

(b) In the medium- to long-term: Bring together the United Nations technical and analytical capabilities to fill research and knowledge gaps in order to support governments to boost production and productivity;

(c) In the long-term: Address structural and policy changes that have substantially contributed to this crisis, along with challenges to productive systems posed by climate change.

6. At the same meeting, the United Nations Secretary-General established a High-level Task Force on the Global Food Security Crisis under his chairmanship and composed of the executive heads of several specialized agencies, funds and programmes of the United Nations, the Bretton Woods institutions, and relevant parts of the United Nations Secretariat. In July 2008 this task force introduced a Comprehensive Framework for Action (CFA), which has two thrusts:

(a) First, immediate action should be taken in four areas: (i) emergency food aid and safety nets; (ii) smallholder food production; (iii) trade and tax policies; and (iv) macroeconomic adjustments; and

(b) Second, over the longer term five further areas should be addressed: (i) resilience of global food security; (ii) increased social protection systems; (iii) sustained smallholder-led food availability; (iv) improved international food markets; and (v) an international biofuels consensus.

7. Similarly strong responses have emerged at the bilateral and national levels. A High-level Conference on World Food Security hosted by FAO has elicited some \$20 billion from the donor community for short, medium and long-term actions. The G-8 Summit of July 2008 at Hokkaido-Toyako also proposed a number of short, medium and long-term responses to the crisis.

III. The potential contribution of UNIDO

8. While UNIDO is not a member of the Secretary-General’s task force, and would have little to contribute to the immediate measures the CFA has called for, the Organization is well suited, both by its mandate and expertise, to offer effective support in the implementation of the various measures identified for the medium and longer terms. At one level, this support would involve technical cooperation and policy advisory services to boost agricultural production and productivity through the increased manufacture and effective use of farm implements and inputs. At the other level, it would promote the adoption of various post-harvest technologies aimed to add value to agricultural output, and to increase its storability, durability and marketability.

9. In this context, it is important to note that post-harvest losses account for a substantial proportion of food production in many developing countries. In the absence of accurate data, the extent of such post-harvest losses in developing countries is acknowledged to reach as much as 60 per cent for fresh fruits and vegetables and 20 per cent to 40 per cent for grains. In some countries of sub-Saharan Africa (SSA) such losses may vary from 35 per cent to 50 per cent of total production. This is equivalent to more than 100 million tons of lost food per year, which is equal to the estimated volume of food crops displaced by the worldwide production of biofuels.

10. In accordance with its commitment to poverty reduction, UNIDO has developed and implemented a variety of programmes and projects targeting increased food availability, safety and accessibility on a sustainable basis. UNIDO's strategy for enhancing food security thus addresses three essential dimensions: (a) adequate availability of food; (b) provision of safe food; and, through income generation; (c) facilitation of access to food. This approach is based on the understanding that eliminating hunger requires not only an increase in the availability of agricultural products, but also the sustainability of the production/marketing chain and access to food through activities which provide the population with the resources needed to obtain food.

11. A key element to achieving these dimensions of food security is the development of competitive and sustainable agro-industrial and agri-business operations. Such operations add value to agricultural production, help to preserve foodstuffs, reduce post-harvest losses, enable products to be transported over longer distances, and allow an increased level of demand for agricultural products to be met, both in domestic markets and potentially in export markets. Such activities also promote rural off-farm employment, with beneficial implications for income generation on a more sustained basis and, as a consequence, poverty reduction.

12. As the specialized agency of the United Nations system mandated to promote industrial development, UNIDO has extensive expertise and experience in supporting and promoting the development of agro- and food processing industries in the still predominantly agriculture-based developing economies, particularly in Africa and the least developed countries. It will continue to offer these services in the future, secure in the knowledge that the growth and modernization of these industries will not only enhance the productivity of the industrial sector as a whole, but will also contribute to increasing the availability of food and the achievement of the Millennium Development Goals of poverty reduction.

IV. Resource constraints

13. The expansion, upscaling and replication of the services offered by UNIDO in this field, which falls squarely within the Organization's mandate under its thematic focus area of "poverty reduction through productive activities" and its sectoral concentration on agro-based industrial development, would enable it to enhance greatly its contribution to the medium and long-term measures adopted by the United Nations system for promoting food security. Traditionally, however, the resources that UNIDO has been able to mobilize for these services have been insufficient to permit an expansion to a level that would be needed for this purpose.

UNIDO's technical cooperation delivery in the agro-industrial sector, despite showing an increasing trend since 2004, only accounts for 15 per cent of the Organization's total delivery. There is consequently a critical need for increased donor support in this area. Recent indications received by the Secretariat that the Organization's activities related to food processing and reducing post harvest losses could be considered for European Commission funding under a new €1 billion facility expected to be established in the near future therefore constitute welcome news. The Secretariat would also encourage other donors to consider increased funding for similar activities.

14. In an attempt to overcome some of the resource constraints hampering an expansion of UNIDO's activities in agro-industrial and agribusiness development, the Organization has sought in recent years to develop partnerships with a number of international financial institutions (IFIs) to implement joint activities in these fields. These usually involve conducting strategic assessments of agro-industrial subsectors, and the preparation, formulation and/or appraisal of investment strategies, programmes or projects in client countries. To date, the Organization has participated in joint operations, in particular with the International Fund for Agricultural Development (IFAD), in India, Morocco, Nigeria and Sierra Leone that are linked to potential investments of more than \$110 million in the field of agro-industries. Negotiations are also at an advanced stage with another four IFIs; the World Bank (WB) and the International Finance Corporation (IFC), the Inter-American Development Bank (IADB), and the African Development Bank (AfDB), for similar cooperation programmes. However, UNIDO's participation in such joint activities with the IFIs is also expected to require a degree of UNIDO co-financing, at least in the first few years of the partnerships. It is therefore expected that complementary support will be required from the donor community to enable UNIDO to participate in the formulation and implementation of large-scale investment programmes in agro-industry with the IFIs.

V. Measures taken by the Secretariat in response to decision IDB.34/Dec.6

15. In accordance with decision IDB.34/Dec.6, the Secretariat has provided Member States with several opportunities to enhance their awareness of the existing and potential contribution that UNIDO could make towards addressing, and overcoming, the global food (price) crisis, especially as it affects developing countries. A comprehensive briefing on this subject, conducted in cooperation with a representative of FAO, was held on 22 July 2008. Subsequently, a report by the Director-General on UNIDO's response to the global food crisis, entitled "Addressing the World Food Crisis" was distributed to Member States on 17 September 2008 as requested in decision IDB.34/Dec.6. This report contained an extensive and detailed survey of UNIDO's activities and services related to this topic, and formed the basis for discussion at a second briefing for Member States arranged by the Secretariat on 23 September 2008.

VI. Action required of the Board

16. The Board may wish to take note of the information provided in the present document and the report issued by the Director-General on 17 September 2008.
