

**Testimony to the
European Parliament Development Committee**

by
Josette Sheeran
Executive Director
UN World Food Programme

Thursday 6 March 2008
Brussels

Mr. Chairman, I want to thank you for putting this hearing together. I know you have been traveling all night and it is yet another example of your commitment and dedication to focus on the needs of the most vulnerable.

I want to thank everybody and all the Excellencies here today. I know this was organized on short notice and want to thank you for the time you are spending here today.

I want to start with a little bit of good news as it is important to keep things in perspective in relation to the current challenge that we face. As I look out at this audience, there are many people here who have been leaders for many years in the fight against hunger and poverty. And there has been a deep commitment from the citizens and leaders of Europe to help with the development challenges that are faced by many countries, and to assist them in reaching the MDGs.

First, the world is nourishing more people today than ever before in history. In fact we have been able to cut the proportion of the hungry in half since 1969 to today. Our challenge has been, with rising population, we have not kept up with the growing numbers but I think it is important to note that there has been huge progress in cutting the proportion of people in the developing world who are hungry from about 37 percent to about 17 percent.

Second, a number of countries are on track to reach MDG1 on hunger and will, by 2015, most likely cut their proportion of hunger in half from 1990. Among these countries are Ghana, Chile, Vietnam, Brazil and others.

Third, Europe has helped lead a revolution in food aid by shifting to cash contributions. In WFP's current strategic plan we are calling this a shift from food aid to food assistance. The cash you have given enables us to have a much more nuanced response to emergency hunger needs. So no longer do we only have commodities to respond with, but now we have the capability to ask, is it better to use local purchase (which we have increased by 30 percent just this past year)? Or is it better, rather than bringing in food, to use a voucher because there is already food on the shelves but people simply cannot afford it? This is the type of challenge we are seeing more and more today with the soaring food prices.



The cash assistance that you give us is more flexible and allows us to ask, what is the proper tool to respond to the kind of emergency hunger that we are seeing? I call this WFP's 80-80-80 solution because today 80 percent of our cash to purchase commodities is spent locally in the developing world; 80 percent of our land transportation is procured in the developing world with local contractors, building up capacity within those countries; and 80 percent of our staff is now hired in the developing world which builds capacity so that when we leave, we leave behind a lot of knowledge and depth in these areas.

And then the fourth point of good news is the commitment we are seeing in Africa to a Green Revolution: a commitment by the African Union, NEPAD and CAADP; investments by countries within Africa in agricultural development; attention drawn by the World Bank and others about agriculture; and the work of AGRA led by Kofi Annan – all of these are key developments needed to achieve long term solutions.

Having said that, let me talk a little bit about the perfect storm that we talked about when I was here in December, and about where we are today.

Record level food and fuel prices, increasing climate challenges and decreasing food stocks are coming together to hit the world's most vulnerable – the so-called bottom billion – hard at a time when food aid flows are at their lowest levels for 35 years, and with the food surplus disposal era clearly over.

Less than three months ago I briefed you on these challenges as well as the challenges facing WFP's ability to respond to current and newly emerging needs.

Since I last met this Committee, hunger has emerged as a major issue at the top of the global agenda.

At the World Economic Forum in Davos in January hunger was a main topic of discussion. The World Economic Forum's *Global Risk Report* for 2008 lists food insecurity as one of the main emerging risks of the 21st century.

The President of the World Bank, Robert Zoellick, called the hunger MDG the forgotten MDG, and urged those gathered at Davos to put hunger, malnutrition and the urgent response to high food prices at the top of the agenda.

In January, the scientific journal *The Lancet* produced a landmark series on maternal and child under-nutrition and the impact of under-nutrition on all MDGs; WHO has also called hunger and malnutrition the number one threat to public health. WFP provided the introduction for *The Lancet* series on this critical issue. The series highlights the fact that more than one third of child deaths and 11 percent of the total disease burden worldwide are due to maternal and child undernutrition.

And every day, we're reading the headlines about the growing impact of high food prices. *The Economist* magazine did a cover story in December called "The End of



Cheap Food”, reporting that its food price index is higher than at any time since it was created in 1845 and that the price of wheat alone had doubled from May to September in 2007. FAO’s food price index was almost 40% higher in September than a year before.

Many experts feel we are seeing the largest structural shift in global agriculture and food markets since World War II.

You no doubt saw the *Financial Times* front page story about high food prices published last week, highlighting the impact on the world’s hungry and WFP. WFP faces a US\$500 million shortfall just due to soaring food and fuel costs – up more than 40 percent since June – which will lead to ration cuts unless we receive additional help soon.

Today, I return to this Committee to underline that high food prices have created an urgent situation throughout many developing countries and have directly hit WFP’s ability to respond to those needs.

Global stocks of food are at an historic low and I think, in fact, the supply is at about 50 days now globally. Food prices have been aggressively increasing to historic highs. There are four major drivers for this:

- the **rise in oil and energy prices** which affect the entire value chain of food production from fertilizer to harvesting to storage and delivering and access to water;
- the **economic boom in nations such as India and China**, creating increased demand for all commodities including food and forcing China, which was a major food exporter just a little more than one year ago, to now being an importer of food;
- **increasingly harsh and frequent climatic shocks** like hurricanes, floods and drought, have made for some bad harvests in particular regions like Australia and regions of Africa;
- and fourth is the **shift to increased biofuels production** that has diverted hundreds of millions of metric tonnes of agricultural output out of the food chain, and has caused food prices to be set at fuel price levels in many places, including, for example, palm oil in Africa which is now being priced out of household reach because it is being set at fuel prices as a biofuel addition.

Experts like Joachim von Braun, the Director General of the International Food Policy Research Institute, point out that food supply and fuel supply are now inexorably linked; triggering a competition between crops for food and crops for fuel that will affect food prices and supply for years to come. He raises the question that even if food production were to increase 20 percent this year would it go into fuel or would it go into



food? For the first time in history we don't know because it would go to the highest bidders on markets.

These high food prices are placing food out of reach for many of the world's most vulnerable and especially for those living on less than US\$1 a day. Of particular concern is the emergence of what I call the new face of hunger – hunger characterized by markets full of food with scores of people simply unable to afford it. These conditions have triggered food riots from Cameroon to Burkina Faso to Indonesia to Mexico and beyond.

A wide range of multilateral institutions including WFP, FAO, IFAD, OCHA, the World Bank and the IMF, as well as many governments, have expressed concerns about the impacts on the poorest households.

These households will likely spend more on food to the detriment of non-food expenditures such as education and health. This means that the effect of the price increases may be detected first in lower school attendance rates or worsening health indicators. Also, households may be forced to eliminate non-staple parts of their diet, such as protein. Finally, they may have to eliminate meals, shifting from three meals a day to one or two.

The poorest households were already spending a larger share of their income on food – some over 75 percent – compared with richer countries which average closer to 15 percent, and therefore have fewer coping mechanisms to fall back on. The key here is diminished resiliency. Groups most affected include rural landless, pastoralists, small farmers and urban poor where we are seeing the most acute, immediate impact.

While we had seen the number of hungry increasing about 4 million a year, this is rising even more with the higher food prices.

Just when demands for help are increasing WFP is able to purchase much less than it could even six months ago for the same contribution. Among WFP's main cost drivers are the cost of food and the cost of fuel. We have sought to mitigate these increases in many ways, including using our cash to purchase 80 percent of our food and local transportation in the developing world. But even with local purchases, the cost of our food basket has risen more than 70 percent since 2002 and 40 percent just since June. While no one is sure if prices have stabilized, few experts forecast that prices will decline during the next few years.

The US Agency for International Development purchases food for WFP's programmes through the US open market, and US contributions account for about 40 percent of WFP's budget. Recently, the agency reported a 41 percent jump in their purchase price since October for food that goes to WFP. The Deputy Director of the US's Food for Peace program is quoted as saying, "just like that, US\$120 million lost to global food aid."



For WFP, higher food and fuel prices mean additional costs to simply meet the already assessed needs and Board-approved needs for programmes for 2008 and most likely also for 2009.

Some have argued that the high food prices are a bonanza for farmers and will lead to an increase in food production throughout the world, including among the smallest farmers in Africa, Latin America and elsewhere. This may be true, and I hope it is. But in the short-term the world's poorest are being hit hard and there is little evidence that most smallholder developing world farmers are reaping the benefits of higher prices and, in fact, many are facing additional challenges.

There are a number of reasons for this. One is that many simply do not produce enough to sell. For them, the cost of inputs, such as fertilizer, have more than tripled without receiving higher returns since they are not in the markets. Also, with an estimated one-third of the world's population currently under food price controls, farmers are not getting more for their product even when they do have food to sell, and often smallholder farmers are separated from markets by many layers with others profiting before they do.

WFP has helped the world's most vulnerable ride the storms for almost half a century; we will rise to the challenge again. To meet those challenges, we are responding with a multi-pronged plan of action.

First, we're assessing the impact of higher prices on our ability to deliver on current programmes and avoid pipeline breaks in critical operations. Today we provide food for up to three million a day in Darfur alone. We are conducting a country by country review, but early assessments estimate our funding gap for 2008 at US\$500 million, solely due to the rise in food and fuel prices. Rations will need to be drastically cut as early as June unless we receive additional help.

Second, we've held a number of consultations with a range of international experts on food security (including from the European Commission) on vulnerability analysis and mapping and needs assessment to analyse and adjust our recognized tools to ensure we are capturing these newly vulnerable. For example, the relationship between wages and food costs is now a critical factor in understanding hunger vulnerability.

Third, we are using your cash contributions to increase our local purchases, in part as a way of extracting every possible savings as we buy closer to the areas of need, while developing ways and means to ensure better market access for smallholder farmers in particular in Africa.

This year alone, WFP increased its local and regional purchases from the developing world by more than 30 percent. WFP procured US\$612 million worth of food from 69 developing nations, comprising 80 percent of the cash we spend on food procurement. And as I mentioned we have done this also in land transportation.



Together this is more than US\$1.2 billion of infusion into local economies in the developing world. We are also able to buy from farmers who would never have access to markets such as in the DRC where we tripled our local purchases this past year. This embeds our work into the solutions of hunger and also constitutes a genuine revolution in food aid.

Fourth, we have hosted strategic policy consultations with prominent experts in the field of hunger and food security so we can better understand the short and long term implications of these shifts in agricultural markets.

Fifth, we will meet this month with our leading NGO partners to discuss and develop our humanitarian response options, building on the excellent cooperation we have and our joint roles in meeting these challenges. And as many of you know, WFP does 60 percent of its delivery programmes through NGOs. Our Colombia programme has 1,400 NGO partners including many community-based NGOs working with us. It is critical for us to work together as a team in response to this challenge.

Sixth, we have set up an internal task force to review the best programme responses to this new face of hunger. We are asking the questions: if the shops are full of food and if there is acute hunger among those who cannot afford it, how do we best respond? When we work with local governments, how can we help them alleviate the most acute pressure? And so looking at options such as local purchase, vouchers or cash may need to be on the table here. WFP is also looking at our past experience in voucher programmes such as in Pakistan since 1992 and Indonesia after the financial crisis in the late 90s to help guide us in the future.

Seventh, in order to take stock and move forward together with our Board we are hosting an expert briefing with Board Members to assess the development and impact and the long term responses required.

And finally, we are continually reviewing and responding to these new needs and vulnerabilities. We are compiling a watch list of some 30 countries that have been discussing with us their vulnerability and are stepping up our food security monitoring in these countries in particular. As you know, Afghanistan has put out an appeal for 77 million dollars for 2.5 million newly hungry identified solely because of the rising food price.

Countries most at risk from higher food and fuel prices are those:

- that import a significant proportion of their food requirements
- that are already experiencing inflationary pressure
- whose populations spend a significant proportion of household income on food
- have an additional shock such as conflict or climatic challenges – such as the West African countries that had the severe flooding or Bangladesh with the cyclones or Afghanistan with the conflict that it faces.



This challenge may be one of the most critical peace and security issues of our time. Fragile democracies are feeling the pressure of food insecurity; food riots have erupted throughout the globe.

I know this is not pleasant or maybe not even a welcomed message. I would love nothing more than to report to you that the battle against hunger is being tackled and won.

I would much rather tell you that we are well on our way to achieving MDG1, but the truth is that unless we deal with this new challenge we could lose the progress already made.

I would like to talk about several areas that I think are critical in response to the long term challenge.

First, access to food and food security must be raised to the highest political levels. Recent events led many to understand food does not spontaneously appear on market shelves. We must give attention to investment, production and technologies that can ensure adequate production and distribution of food.

We must help bring efficiency and effectiveness to agricultural markets worldwide to ensure farmers benefit from their labours and supply and demand equations are well connected. This is why I made my first trip as the head of WFP to Ethiopia to go to the new commodity exchange there and meet with traders and farmers about their access to markets and WFP's local purchases. We must understand that food security is not necessarily a natural outgrowth of economic development. The African Union, through NEPAD, has an excellent plan of action in CAADP. We must make this plan of action active and at the forefront of development in Africa. This requires commitment and investment.

Second, we must ensure that the Green Revolution is extended to Africa and that we get ahead of the hunger curve, especially in face of dire predictions on reduced yields associated with climate change.

Third, we must ensure that we stay ahead of hunger crises with early warning systems and productive safety nets, such as the huge innovative work WFP is doing with the government of Ethiopia using food and cash interventions to address hunger at its earliest manifestation.

Fourth, we must continue on what I call the 'food aid revolution' transforming emergency food interventions into productive investments whenever possible, wherever possible. This is a red cup from Rwanda that I carry with me from our school feeding program. This cup is now filled 70 percent of the time with products from farmers from that country or region as close to the school as possible and that makes a win-win solution when we do school feeding.



Fifth, we must ensure that our tool box is more nuanced so that we respond in ways that enhance markets and that do not work against them, for example with the vouchers and local purchases when appropriate.

Sixth, we must meet the emergency needs and look towards more innovative financing mechanisms for the long term future if we are in an era of increasing food prices.

I think it is simply unacceptable to all of us – to the global community – to see large portions of people cut off from the help when it is the last resort and the only thing that can help is the world coming to their assistance at a time of need.

This type of situation is most directly characterized today in Darfur, where there is not enough food on local markets and there is no alternative than a global intervention to make sure that those who have been marginalised and cut off have access to food. But I do think we need to look at the longer term financing mechanisms to insure that our ability to help is not hit by the kinds of market fluctuations that we have been seeing in the past couple of years.

Mr. Chairman, I want to thank you so much. This is an urgent message. We appeal for your help and we will be communicating very directly about our country by country assessment and where we most need help in the coming months.

Thank you very much.

