Photo: FAO/Eddie Gerald

Crisis has reached the poorest of the world

Developing countries had barely recovered from the 2007–08 food crisis when the current financial crisis struck. Contrary to earlier assumptions that the two crises were unrelated, and that developing countries' poor economic integration would protect them from the worst of the latter crisis' effects, it is now clear that both episodes share similar economic origins, and severe impacts on the world's poorest.

The 2007–08 food price crisis which hit poor developing countries particularly hard has evolved almost seamlessly into a global financial and economic crisis. Despite billions for bailouts in the United States and Europe, since the beginning of the year this economic crisis has turned into a global recession. At first glance the two phenomena seem to have little to do with each other. The food crisis was seen more as an issue for development policy, while the collapse of the American mortgage market and the subsequent banking and financing crisis was seen more as a consequence of the very deregulated financial sector in industrialised nations. At first, there was the hope that the economic development in developing countries at the point of the global collapse would turn out to be an advantage because they were only marginally integrated into the global financial economy.

But closer examination of the many different causes for the price inflation of foodstuffs, which the food crisis precip-

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◀ *Children are particularly hard hit by the global economic crisis, as many poor parents cannot afford to buy enough food.*

itated, revealed a connection between excessive money-making schemes at the forefront of the financial crisis and a measurable increase in speculative investments on the corn exchanges. And last but not least, it was precisely these investors – with their massive pull-out from the stock exchanges – who were a major cause of the rapid drop in prices on the international food markets because the large American banks focused on increasing liquidity as fast as possible after the collapse.

But by the time the current financial crisis had spilled over into the real economies of the industrial nations the second wave of the crisis finally reached the developing countries as well. The global recession had come to the poorest of the poor. More than 1.4 billion people are now living in absolute poverty. The United Nations Food and Agriculture Organization (FAO) currently projects that the number of people who go chronically hungry will exceed the one billion mark before the end of 2009.

The selected indicators in the Box alone are an impressive illustration of the different channels through which the aftermath of the financial crisis has affected developing countries: Low-income countries face grave consequences as the value of global trade is declining. Capital inflows from exports have deteriorated either through lower demand and/or declining commodity prices, in some developing countries coupled with lower demand for simple manufactured goods; in others coupled with lower receipts from tourism. At the same time migrant workers remit significantly less earnings for domestic investment. Meanwhile, private investment flows to developing countries dropped by more than 40 percent in 2008 as access to international credit markets dried up and portfolio equity inflows all but ceased. The amount of development assistance available to these countries will not cover their external financing needs in 2009 (World Bank, 2009: *Global Development Finance: Charting a Global Recovery*).

Many developing countries had not yet recovered from the food and fuel crises when they were hit by the global financial crisis. While it is difficult to attribute apparent impacts solely to the financial crisis, the UN Conference on the "World Financial and Economic Crisis and Its Impact on Development" reports a wide range of negative impacts (United Nations, 2009: *Conference on the World Financial and Economic Crisis and Its Impact on Development,* Draft outcome document of the Conference):

- Rapid increases in unemployment, poverty and hunger;
- Deceleration of growth, economic contraction;
- Negative effects on trade balances and balance of payments;
- Dwindling levels of foreign direct investment;
- Large and volatile movements in exchange rates;
- Growing budget deficits, falling tax revenues and reduction of fiscal space;
- Contraction of world trade;
- Increased volatility and falling prices for primary commodities;
- Declining remittances to developing countries;
- Sharply reduced revenues from tourism;
- Massive reversal of private capital inflows;
- Reduced access to credit and trade financing;

The financial crisis – facts & figures

- The global economy is projected to contract by 2.9 percent. And world trade is projected to fall by 10 percent.
- Developing countries are expected to grow by only 1.2 percent this year.
- Growth is expected to revive during 2010, but the poor in many developing countries will continue to be hurt because they have less cushion to protect themselves.
- Private capital flows could drop to USD 363 billion this year. Many countries will find it difficult to meet external financing needs, estimated at USD 1 trillion.
- The overall financing gap this year for developing countries will be between USD 350 to 635 billion.
- Concerted global action is needed while the crisis is still underway.
- There is not enough public money to solve the crisis; the recovery strategy needs to encourage private business and financing.
- As many as 90 million more people could be trapped in poverty as economic growth slows around the world in 2009, according to Bank forecasts. This is on top of the 130–155 million people pushed into poverty in 2008 because of soaring food and fuel prices.
- More than 1 billion people could go chronically hungry this year, according to projections. This would reverse gains in fighting malnutrition.
- Infant mortality is set to soar due to countries' lower growth rates. Between 1.4 and 2.8 million more babies may die in the next five years, if the crisis persists.
- Sharply tighter credit conditions and weaker growth are cutting into government revenues and their ability to invest to meet education, health and gender goals, as well as the infrastructure expenditures needed to sustain growth.

Source: The World Bank, June 2009; www.worldbank.org/html/extdr/financialcrisis/bankinitiatives.htm

- Reduced public confidence in financial institutions;
- Reduced ability to maintain social safety nets and provide other social services, such as health and education;
- Increased infant and maternal mortality;
- Collapse of housing markets.

Impacts for the rural sector

Which significance do these impacts have for agriculture, rural livelihoods and food security in developing countries?

Based on the evidence from ten country case studies, the Overseas Development Institute summarises five transmission mechanisms through which the financial crisis leads to increased rural poverty (te Velde et al.: *The global financial crisis and developing countries: synthesis of the findings of 10 country studies.* ODI, 2009):

1. Reduced employment: Layoffs in industry lead to de-urbanisation, in which unemployed workers are returning to rural areas. Industrial agriculture is also cutting employment: "In Kenya, the labour-intensive horticultural industry, which employs an estimated three million people, had to cut around 1 200 jobs this year and suffered a 35 percent drop in exports of flowers."

2. Public and private transfers: Declining remittances severely lower consumption of families living near the poverty line, who often depend on private transfers for large portions of their consumption of goods and services. This leads in turn to reduced domestic investment followed by increased unemployment.

3. Prices and wages: Lower demand in global markets for commodities is pushing down prices, reducing the income of primary producers. In Cambodia, for example, reduced demand for cassava resulted in a decline of gross margins for cassava by 166 percent – farmers are therefore making a loss of USD 180 per hectare. Some farmers have been forced to leave the crop on the farm as there are no buyers. Further, a number of farmers who took loans to grow or expand cassava production are likely to face a precarious financial situation. Observed changes at sectoral level do not necessarily reflect the reality of workers within that sector. Despite rises in prices in Cambodia's rice sector in the past year, field workers in the sector report that their real earnings have declined by approximately 155 percent since 2008.

The World Bank predicts for 2009 that about 90 million more people could be trapped in poverty as economic growth slows around the world.

In addition, the slump in world food prices is not necessarily being felt by poor consumers. Evidence in Bangladesh shows that, since November 2008, food price inflation (as measured by the commodity food price index) was higher than aggregate inflation (measured by the commodity price index), and that inflation in rural areas was higher than the average and than urban inflation. Therefore, the rural poor are experiencing the worst impacts of inflation.

4. Terms of trade: Worsening trade deficits in many poor countries (e.g. Ghana, where the food and fuel price crises worsened the country's trade deficit by 478 percent between 2003 and 2007) reduces their ability to benefit from falling food and fuel prices.

5. Assets and access to goods and services: Goods and services provided by governments, NGOs and the private sector may be declining, as these entities are seeing declines in revenue.

Food is available but the purchasing power isn't there

The 2007–08 food price crisis taught us that the global food crisis is not due to the fact that there is not enough food available. Nearly all of those going hungry around the world are doing so because they cannot afford adequate food. Two-thirds of these people live in the rural areas of developing countries, in other words, where food is produced. These people are poor and go hungry because they do not have

Photo: FAO/Eddie Gerald

any employment opportunities and because they are largely denied access to a means of production. Hunger is therefore first and foremost the result of uneven income distribution.

The repercussions of the financial crisis are compounding the already precarious living situations of these people because they increase the volatility of prices and costs, making these people more economically vulnerable. At the same time, the situation of the federal budgets of developing countries is deteriorating, and investments in social and economic infrastructures are not made or are delayed. This also accelerates the cycle of vulnerability, poverty and hunger.

The international community must react

The demands that were formulated by the international community during the 2008 food crisis regarding development policy continue to be topical but they are much more urgent given the ramifications of the financial crisis.

What needs to happen?

- **Guarantee the right to food for all people.** This includes direct and targeted aid money for the applicable budgets. In the medium term, social safety nets need to be expanded. This requires that social infrastructures absolutely be prioritised for decisions being made now about public investments, and that the


Photo: dpa/picture-alliance

In its Development Report 2008, the World Bank states that every euro invested in agriculture and rural development can eradicate two to seven times more poverty than any other type of investment.

institutions that can manage these systems are funded.

- **Calm the markets and structure them fairly.** The top priority is to calm the markets again. Smallholders in particular suffer from the volatility of both the product and input markets. In the short- and long-term this includes eliminating subsidies for agricultural exports once and for all, as well as abandoning public supports for biofuels in rich nations. Other protectionist measures (such as export bans) should also be done away with to prevent other inflationary spirals from being triggered. Investment is needed instead to expand early warning systems and develop effective instruments for building strategic reserves.

- **Make agriculture more sustainable.** Here the priorities are taken from lessons from the World Bank's *World Development Report 2008.* They include agricultural policy reforms (access to land, water, credit, markets, consultancy services); setting targeted gender policies given the major role of women in agriculture; strengthening collectives and agricultural trade associations; increasing the amount of processing done locally; developing risk management instruments; promoting a pro-poor infrastructure and resource protection in rural areas; and intensifying national and international agricultural research.

The most convincing message in light of the aftermath of the financial crisis can also be taken from the *World Development Report 2008.* Every euro that is invested in agriculture in developing nations can, depending on the initial situation, eradicate two to seven times more poverty and hunger than other types of investments. One of the most dramatic outcomes of the financial crisis is the lack of growth and, thus, the conditions for pro-poor growth. Investing now in agriculture and the rural areas of developing nations will not only create growth, it will create pro-poor growth. The international community will have to chip in a couple billion euros more for these investments than it currently has put in the pipeline. This would be just a fraction of the billions that have already been poured into rescuing the financial systems and to stop the recession, but a fraction with an immediate effect.

Zusammenfassung

Im Gegensatz zu früheren Annahmen, dass die Nahrungsmittelkrise 2007–2008 und die aktuelle Wirtschaftskrise nichts miteinander zu tun haben, zeigt dieser Artikel, dass beide Ereignisse ähnliche makroökonomische Ursachen haben. Er zeigt ferner, dass sich die Folgen dieser beiden Entwicklungen gerade bei den Ärmsten der Armen kumulieren, von denen die meisten in den ländlichen Gebieten der Entwicklungsländer leben – dies sind mehr als 1,4 Milliarden extrem arme Menschen und über eine Milliarde Menschen, die bis Ende 2009 voraussichtlich von Hunger betroffen sein werden. Der Artikel erläutert, über welche Verflechtungen die Folgen dieser Krisen die wirtschaftlich schwächsten Bevölkerungsgruppen erreichen und fordert die internationale Gemeinschaft dringend auf, mit verstärkten Investitionen in Landwirtschaft und ländliche Entwicklung darauf zu reagieren.

Resumen

Al revelar los orígenes macroeconómicos similares de la crisis alimentaria de 2007–2008 y la actual crisis económica, el presente artículo refuta los supuestos anteriores, según los cuales ambas tenían poco en común. Al mismo tiempo, el artículo revela la exacerbada severidad de los impactos de dichos eventos sobre los más pobres de los pobres del mundo. La mayoría de ellos residen en las áreas rurales de los países en desarrollo: tanto los más de 1400 millones que viven en una pobreza absoluta como los más de 1000 millones que – según las proyecciones – afrontarán el hambre a fines de 2009. Al identificar los canales que encauzan los efectos de estas crisis hacia los grupos económicamente más marginados del mundo, el artículo hace un llamado a la comunidad internacional para responder con mayores inversiones en la agricultura y el desarrollo rural.