Policy Note
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Possible Strategies for Enhancing Food Security

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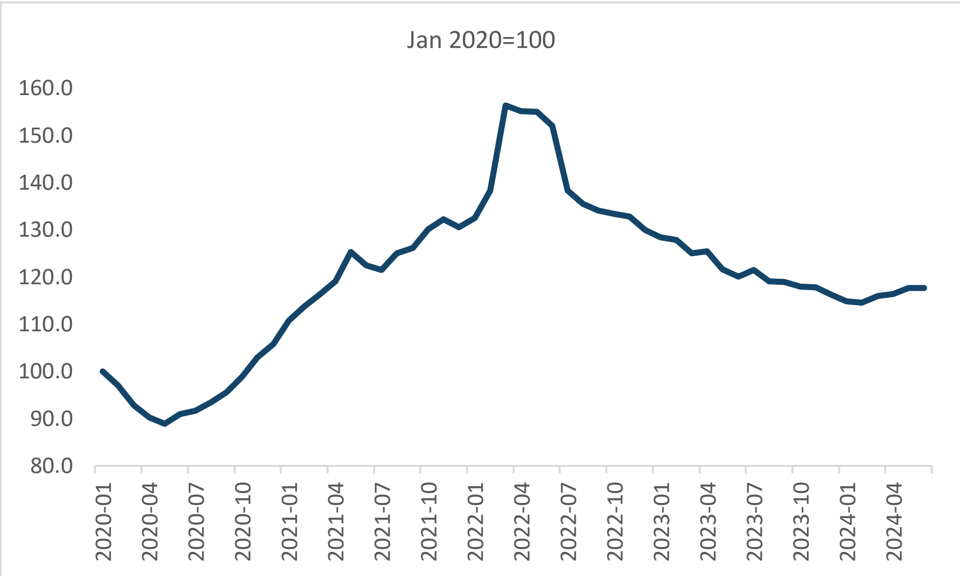
Introduction

Food insecurity has emerged as a growing problem in the past few years, despite Sustainable Development Goal 1. About 122 million more people faced hunger in 2022 than in 2019, before the global pandemic, and around 42% of the world's population – more than 3.1 billion people – were unable to afford a healthy diet in 2021.[1] The G20 has also recognised the problem, and in 2021 identified three priority objectives: to increase responsible investment in food systems; to increase incomes and quality employment in food systems; and to increase productivity sustainably to expand the food supply.[2]

One important reason for increasing food insecurity in recent years is the pattern of global food prices. In the past three years, global food prices have been on a roller coaster, rising rapidly especially in the first half of 2022 due to a speculative bubble and then falling from July 2022 onwards (Figure 1). The phase of rising food prices led to increasing food prices around the world, especially in lower-income countries – and this was obviously associated with growing hunger.

Figure 1. Global Food Price Index



Source: Food and Agriculture Organization, "FAO Food Price Index", https://www.fao.org/worldfoodsituation/foodpricesindex/en/

The dramatic rise in global food prices (especially for wheat) in the first half of 2022 was largely attributed to the Ukraine War, which was supposed to have affected supply because of Russia and Ukraine being major wheat exporters. But it is now clear that global supply was largely unaffected in this period, because of increased production in other countries. Instead, the rise in prices can be attributed to the combination of profiteering by large agribusinesses in the oligopolistic international food trade and financial speculation in food commodity futures.[3]

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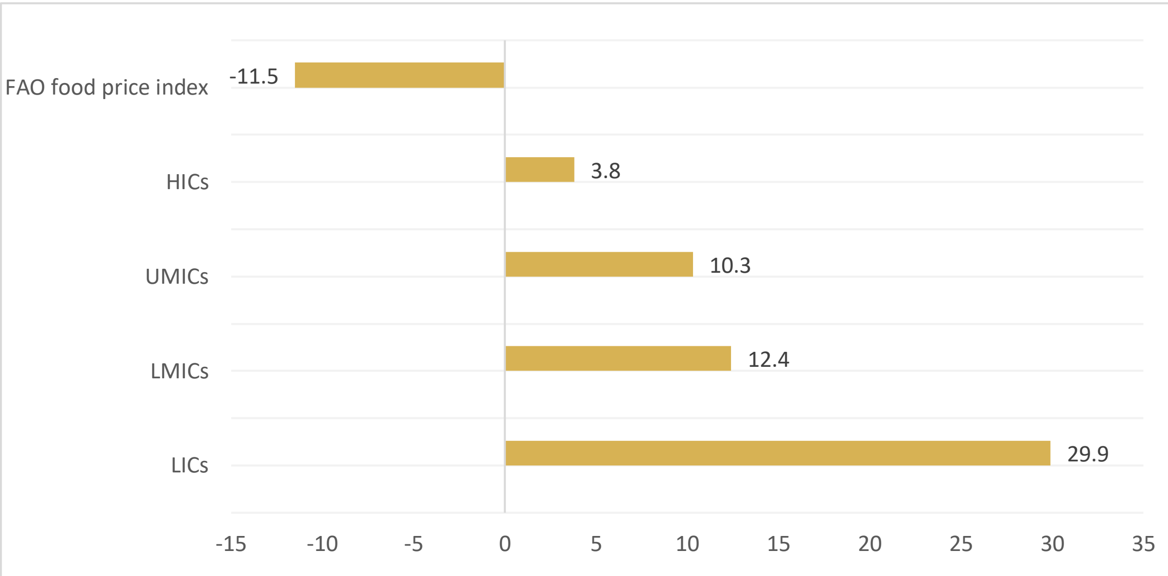
[1] Food and Agriculture Organization, *The State of Food Security and Nutrition in the World* (Rome: FAO, 2023).
[2] G20 Development Working Group, "G20 Food Security and Nutrition Framework", 2021; UNCTAD, *Trade and Development Report 2023: Growth, Debt and Climate: Realigning the Global Financial Architecture* (Geneva: UNCTAD, 2023).
[3] Jayati Ghosh, "The Myth of Global Grain Shortages", Project Syndicate, August 11, 2023; UNCTAD, *Trade and Development Report 2023*.

Some observers have argued that, even if this is true, it should not be such a big concern because the prices came down quite rapidly thereafter – indeed, by early 2024 the Food and Agriculture Organization's (FAO) Global Food Price Index was back to the level of two years earlier. Unfortunately, however, the transmission of global food prices to domestic prices tends to be uneven: domestic prices rise when the global prices rise, but they do not necessarily come down, and may even continue to increase, as international prices fall.

This is evident from Figure 2, which shows the behaviour of domestic food price changes during the recent period of global food price decline. The FAO's Global Food Price Index fell by 11.5% in the year up to September-October 2023, but domestic prices across all groups of countries continued to rise. Significantly, the food price inflation was higher the lower the per capita income of the country. For low-income countries, food prices increased on average by just under 30% in this period of falling global food prices, following earlier food price increases when global trade prices increased. In such countries, between 30 and 60% of consumer spending is devoted to food (compared to 10-20% in higher-income countries), making the price rises even more devastating for the poor.

Figure 2. Domestic food inflation rates, Sep-Oct 2022 to Sep-Oct 2023 (%)



Source: International Food Policy Research Institute, "[Despite Improved Global Market Conditions, High Food Price Inflation Persists]", December 4, 2023

This ratchet effect of domestic food prices means that even temporary spikes can be dangerous and impact food security very severely. So, we cannot afford to be complacent about short-term increases in prices due to speculation, since they continue to have medium-term effects, especially in developing countries. But also, in order to address this, both the price volatility in the global food markets and the nature of transmission of price changes to domestic markets must be addressed.

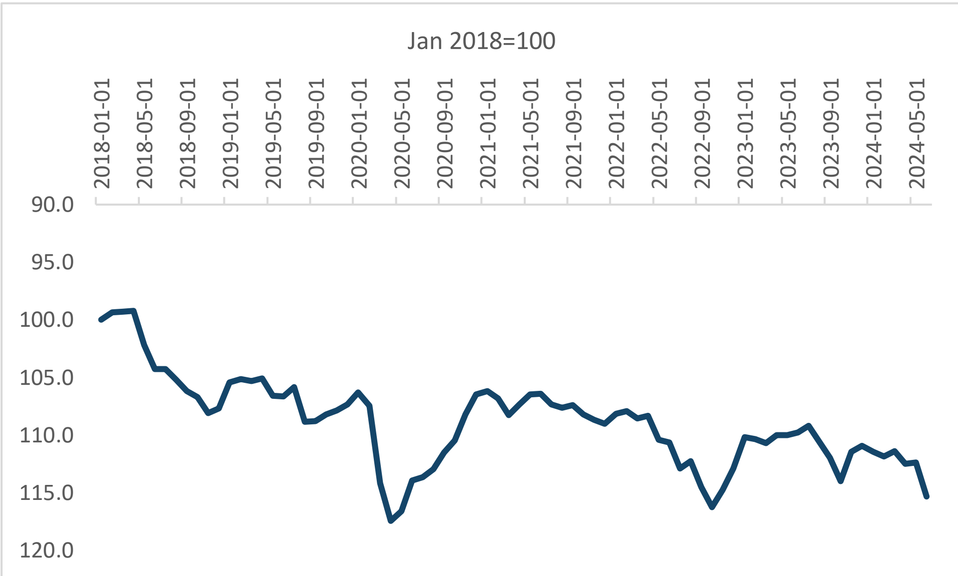
Domestic food prices continue to increase in low- and middle-income countries (LMICs) because of the interplay between physical supplies of food and market behaviour. The domestic availability of food is determined by local and national production (in which weather and climate shocks, agroecology and conflicts all play a part), as well as a country's ability to import food (which can be affected by transport shocks as well as foreign exchange constraints). Macroeconomic policy responses in LMICs can make matters worse, as policymakers try to counter both food price increases and associated inflation (as well as the fear of capital outflows) by raising interest rates. This exacerbates the situation for consumers.

External shocks have been the major drivers in the recent period, particularly through factors that have caused currencies to devalue in lower-income countries. Since both food and fuel are universal intermediates, and fuel prices rose sharply for a brief period, this had a cascading effect on other prices within the economy.

Currency depreciation in LMICs mostly reflects changes in the global economy rather than in these countries. The massive liquidity increase and low interest rates in rich countries in the 2010s allowed many LMICs that earlier were not attractive to private finance to access credit and bond markets. But then, from 2020, a series of shocks (the COVID-19 pandemic, Ukraine War, tighter monetary policies and higher interest rates in advanced economies) meant a reversal of these processes, causing net capital outflows. LMICs faced falling capital inflows, higher interest rates and higher spreads on their sovereign bonds.

This has created debt distress in at least 70 countries, and caused currencies to depreciate across the board, making imported food costlier. Figure 3 indicates the extent of nominal currency depreciation (vis-a-vis the US dollar) across all LMICs from 2018 onwards.

Figure 3. Nominal emerging market economies, $ Index



Source: Federal Reserve Bank of St. Louis, "Nominal Emerging Market Economies U.S. Dollar Index", https://fred.stlouisfed.org/series/TWEXEMEGSMTH#0

Sovereign debt distress further adds to food insecurity, when debtor countries are forced to pay so much as debt service that they cannot import sufficient food to keep domestic prices down. Even countries that are not net importers of food have found that their domestic food prices are badly impacted by currency depreciation.[4] This points to the importance of regulating finance not only in global commodity markets but also in cross-border flows, if only for reasons of food security.

[4] FAO, *The State of Food Security*.

Possible strategies

Reliance on global markets for both food and finance is proving to be extremely problematic for LMICs, pointing to the need for protection against such shocks. For even minimal resilience, it is now important for countries to strive for domestic food sovereignty, regional arrangements to ensure supply and capital flow management techniques to reduce currency volatility, in addition to international coordination for regulation in financial markets and to control profiteering oligopolistic behaviour. In each of these areas, the G20 can initiate discussions and begin the process of coordination of policies that could generate positive outcomes.

Buffer stocks and strategic grain reserves. Public buffer stocks of essential items like certain food grains, to ensure physical supply within countries and regions, must seriously be considered. Some countries like India and China already utilise such physical buffer stocks of essential food items, which are used for countercyclical open market operations in food markets. The US similarly uses strategic oil reserves to manage prices, but food is no less crucial for most countries. Publicly held buffer stocks have been found to be important not only for reducing price volatility and ensuring affordable prices for consumers but also for incentivising the types of cultivation production that are necessary for food sovereignty and more sustainable agriculture. As noted by Weber et al., 'Large scale public procurement can steer agriculture towards greater climate resilience, emission mitigation and crop diversification, contribute to climate change mitigation and enhance food sovereignty.'[5] This can be particularly important for incentivising and enabling viable smallholder sustainable agriculture. For smaller countries, it is worthwhile to think of participating in regional arrangements for such buffer stocks.

Countercyclical intervention in commodity futures markets. Since food markets are increasingly financialised, with a significant role for commodity futures markets that rebound on spot markets, it is also important to have such countercyclical public measures in these financial markets. A government-administered virtual reserve mechanism, with the possibility of governments' direct intervention in the physical and financial markets, could also be effective. This would require smaller physical reserves (possibly held in decentralised locations) complemented by a financial fund used for intervention in futures markets against price spikes/dips. In countries where public institutions play an important role in grain trade and set floor prices, such as India and China, there is a strong case for banning private financial activity in futures markets for grain trade altogether.

There is also a strong case for a global reserve, along the lines of commodity boards and international commodity agreements that in the past were used to prevent price volatility. This could take the form of intervention in the futures market through an international public agency, housed in a UN agency such as the FAO, using physical reserves of constituent national members. As in currency markets, such intervention in financialised commodity markets could even help market participants to recognise the (real) fundamentals that would prevail over short-term speculation-driven movements.

Financial regulation in global commodity markets. Commodity markets in the US and EU play a disproportionate role in setting global commodity prices. Attempts to regulate these markets and reduce excessive financialisation and price volatility in these markets have had only limited success, and it is clear that re-regulation is required. Some of the measures required include:

- Bringing all commodity transactions into regulated exchanges, with strict imposition of capital requirements, margin requirements and position limits of individual agents; and

[5] Isabella Weber et al., "Buffer Stocks Against Inflation: Public Food Stocks for Price Stabilisation and their Contribution to the Transformation of Food Systems" (Policy Paper, Heinrich Boell Stiftung, Berlin, 2024).

- Eliminating the ‘swap-dealer loophole’ that persists, allowing financial players to enter as supposedly commercial players. This would mean that only players with a direct interest in the physical commodity can participate. For example, a purely financial institution (a bank or hedge fund) would not be allowed to participate in the futures markets for, say, wheat or rice, in which they have no direct interest.

National policies for agriculture and food access. Policies for holding food reserves should be combined with social protection and food security safety nets within countries. National/regional agrarian policies that (soil and climate permitting) ensure self-sufficiency in food staples with sustainable and climate-resilient cultivation practices are also called for. This means a greater focus on public investment and spending in these areas.

Cross-border capital flow management policies. As noted above, currency depreciation has played an important role in creating and intensifying a ratchet effect on domestic food prices in LMICs, such that domestic prices rise with global price rises, but do not fall when global prices fall. In order to reduce this, the exchange rate volatility and spillovers from macroeconomic policies of advanced economies created by capital flows need to be reduced for LMICs, through various macroprudential policies and other forms of capital account management that reduce destabilising capital flows.

Regional arrangements. Along with regional co-operation to promote currency stability and access to imports in periods of stress, more formalised arrangements could be made between some trading partners to ensure supplies of essential commodities, especially during periods of shocks or shortages.

What can the South African G20 presidency and the G20 do?

Several of the measures outlined above require international cooperation, either to provide an enabling environment or for active intervention through an international agency. While the first-best option is for international agreements, cooperation within the G20 or even a subset of G20 countries can be significant in pushing for these changes or even changing the terms of engagement of all parties and moving towards greater food security.

Two areas in which developing countries, led by South Africa through its G20 presidency, could play very important roles are buffer stocks and strategic grain reserves, and cross-border capital flow management policies. In addition, it would be very useful to open up discussion on financial regulation for global commodity markets, since most of these occur within the US and European countries that are G20 members. Coordination across countries is essential for effective regulation of cross-border flows, so this is an important potential area for a G20 workstream.

The South African government, during its G20 presidency, could initiate an expert review to be conducted in cooperation with the FAO and UNCTAD that would examine the drivers of food insecurity as a result of speculative activities, and consider ways to stabilise prices globally and within countries. This would help to place the topic firmly on the G20 agenda for future G20 presidencies to take forward.

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