

FRAMEWORK DOCUMENT
FOR
PROPOSED LOANS, CREDITS, AND GRANTS
IN THE AMOUNT OF
US\$ 1.2 BILLION EQUIVALENT
FOR A
GLOBAL FOOD CRISIS RESPONSE PROGRAM

June 26, 2008

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	EBRD	European Bank for Reconstruction and Development
ADP	Agricultural Development Programme	ECA	Eastern Europe and Central Asia Region
AfDB	African Development Bank	ERL	Emergency Recovery Loan
AFR	Africa Region	ESF	Exogenous Shocks Facility
AHIF	Avian and Human Influenza Facility	ESMF	Environmental and Social Management Framework
AIDS	Acquired Immune Deficiency Syndrome	FAO	Food and Agriculture Organization
APL	Adaptable Program Loan	FMR	Financial Management Report
APP	Additional Financing Project Paper	FPCR	Food Price Crisis Response
AU	African Union	FRM	Financial Resource Mobilization
BAAC	Bank for Agriculture and Agricultural Cooperatives	GAC	Governance and Anti-Corruption
BDM	Banking and Debt Management Department	GFRP	Global Food Crisis Response Program
BRI	Bank Rakyat Indonesia	GPAI	Global Program for Avian Influenza Control and Human Pandemic Preparedness and Response
CAADP	Comprehensive Africa Agriculture Development Programme	HIV	Human Immunodeficiency Virus
CAP	Consolidated Appeals Process	HPAI	Highly Pathogenic Avian Influenza
CAS	Country Assistance Strategy	IARC	International Agricultural Research Centers
CCT	Conditional Cash Transfer	IBRD	International Bank for Reconstruction and Development
CDD	Community Driven Development	ICB	International Competitive Bidding
CEB	Board of Chief Executives	IDA	International Development Association
CERF	Central Emergency Response Fund	IDB	Inter-American Development Bank
CFF	Compensatory Financing Facility	IFAD	International Fund for Agricultural Development
CFGB	Canadian Foodgrains Bank	IFC	International Finance Corporation
CGIAR	Consultative Group on International Agriculture Research	IFIs	International Financial Institutions
CIDA	Canadian International Development Agency	IFPRI	International Food Policy Research Institute
CIS	Commonwealth of Independent States	IMF	International Monetary Fund
CNAs	Countries in Non-Accrual Status	ISDS	Integrated Safeguards Data Sheet
DALY	Disability Adjusted Life Year		
DDO	Deferred Drawdown Option		
DECPG	Development Prospects Group		
DFID	Department for International Development (UK)		
DPL	Development Policy Lending		
DPO	Development Policy Operation		
EAP	East Asia and Pacific Region		

ISFP	Initiative on Soaring Food Prices		Facility
ISR	Implementation Status and Results Report	PRSC	Poverty Reduction Support Credit
LAC	Latin America and Caribbean Region	PRSP	Poverty Reduction Strategy Papers
LICUS	Low-Income Countries Under Stress	ROC/OC	Regional Operations Committee/Operations Committee
MDB	Multilateral Development Bank	SAFEX	South Africa Exchange Market
MDG	Millennium Development Goals	SARS	Severe Acute Respiratory Syndrome
MDF	Multidonor Trust Fund		
MNA	Middle East and North Africa Region	SAR	South Asia Region
MIGA	Multilateral Investment Guarantee Agency	SDC	Swiss Agency for Development and Cooperation
MIS	Management Information System	SFD	Supplementary Financing Document
MOCD	Memorandum of the Country Director	SIL	Specific Investment Loans
MOP	Memorandum and Recommendation of the President	SMU	Sector Management Unit
MOS	Monthly Operations Summary	SPP	Simplified Procurement Plan
NEPAD	New Partnership for Africa's Development	SSA	Sub-Saharan Africa
NGO	Non-Governmental Organization	SSN	Social Safety Net
OECD	Organization for Economic Cooperation and Development	SWAp	Sector-wide Approach
OED	Operations Evaluation Department	TCP	Technical Cooperation Program
OIE	World Organization for Animal Health	TCT	Targeted Cash Transfer
OPCS	Operations Policy and Country Services	TICAD	Tokyo International Conference on African Development
PAD	Project Appraisal Document	TRD	Tranche Release Document
PAHO	Pan American Health Organization	UNDP	United Nations Development Programme
PATH	Program for Advancement Through Health and Education	UNICEF	United Nations Children's Fund
PCN	Project Concept Note	USAID	United States Agency for International Development
PID	Project Information Document	USDA	United States Department of Agriculture
PRGF	Poverty Reduction Growth Facility	VAT	Value Added Tax
		WAEMU	West Africa Economic and Monetary Union
		WDR 2008	World Development Report: Agriculture for Development 2008
		WFP	World Food Programme
		WHO	World Health Organization

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GLOBAL FOOD CRISIS RESPONSE PROGRAM CONTENTS

EXECUTIVE SUMMARY.....	ii
A. STRATEGIC CONTEXT AND RATIONALE	1
1. Global, Regional and Sector issues	1
2. Rationale for World Bank Group involvement.....	14
3. Higher level objectives to which the program contributes	15
B. PROGRAM DESCRIPTION.....	15
1. Coordination	15
2. Instruments of Bank support.....	18
3. Program development objectives.....	22
4. Program components	23
5. Lessons learned and reflected in the program design	35
C. IMPLEMENTATION.....	38
1. Partnership arrangements.....	38
2. Institutional and implementation arrangements.....	39
3. Monitoring and evaluation of outcomes/results.....	39
4. Sustainability	40
5. Critical risks and possible controversial aspects.....	41
D. APPRAISAL SUMMARY	46
1. Economic and financial analyses.....	46
2. Technical	46
3. Fiduciary.....	46
4. Environmental and social aspects	47
5. Safeguard policies.....	48
6. Policy exceptions and readiness	49
E. CONCLUSIONS AND RECOMMENDATIONS	49

Annexes

Annex 1: Menu of instruments and processes	51
Annex 2: Summary of strategies of the partners.....	53
Annex 3: Guidance for anti-corruption preparedness and supervision.....	58
Annex 4: Results framework and monitoring	64
Annex 5: Detailed component descriptions	68
Annex 6: Economic assessment.....	96

EXECUTIVE SUMMARY

GLOBAL FOOD CRISIS RESPONSE PROGRAM (GFRP)

1. Rapidly rising food prices pose a serious threat to food security in developing countries. Even in rural areas, the vast majority of households are net food purchasers and typically spend more than half of their income on food. Without an adequate collective response, the rise in global food prices could result in an additional 100 million people in low-income countries falling below the poverty line. Extraordinarily high food prices could reverse recent progress in reducing malnutrition and thereby reduce the likelihood of meeting the Millennium Development Goal of halving the proportion of people suffering from hunger. There is an important gender dimension as well. In many societies, women bear the primary responsibility for feeding the family, yet without having control of family resources. In many countries, women and girls are also frequently less favored in intra-household distribution of food.

2. International grain prices rose steadily but at a moderate pace between 2002 and 2006, followed by a more accelerated increase in 2007. Especially significant grain price spikes occurred in early 2008, resulting in sharp increases in staple food costs in many developing country markets. Such soaring food prices have been a contributing factor to civil unrest in nearly forty countries. Meanwhile, the price of inputs for food production such as fuel and fertilizer, has tripled since January 2007, undercutting the profitability of many smallholder producers. These farmers need to pay the extra cost up front without necessarily reaping commensurate output price benefits due to their small amounts of marketed surplus.

3. Due to a combination of factors, global food stocks are at one of the lowest levels on record in per capita terms after a steady decline since the late 1990s. This situation, together with the recent imposition of trade restrictions by several grain exporting countries and the decisions by many grain importers to build or rebuild 'strategic grain reserves', has increased uncertainties in grain markets, and set the stage for continued high volatility in global grain prices for the next several years. To date, the short-run policy responses adopted by developing countries have varied considerably in terms of their targeting of the poor, their cost-effectiveness, and their long-run implications.

4. Immediate support from the international community is required to reduce the impact of high and volatile food prices on the poor and vulnerable and to increase country resiliency to future supply and market shocks. The proposed Global Food Crisis Response Program (GFRP) facilitates a rapid and flexible Bank response, while supporting the evolving coordination role of the United Nations Task Force on the Global Food Crisis established in late April 2008 in Berne and the World Food Programme (WFP)'s work on the emergency delivery of food and relief operations to the worst hit countries. It provides a framework for the Bank to coordinate its response to the crisis in partnership with other multilateral organizations and donor agencies.

5. The Bank's engagement as proposed under the GFRP is based on a role distinct from its partner agencies. The Bank's multi-sectoral expertise gives it a strong comparative advantage in providing integrated solutions to address food security concerns and effectively mitigate the adverse effects of rising food prices. In particular, the Bank is able to: (i) rapidly provide significant funds to countries at risk, (ii) undertake policy analysis drawing upon country, regional and global experience, (iii) provide access to a mix of innovative financial instruments to mitigate a portion of the increased food price risk, partially alleviating the need for costly physical remedies such as strategic grain reserves, (iv) design and deliver well-targeted social protection interventions to mitigate the effect of the price rise on the poor and vulnerable; and (v) support policy and programmatic responses over the medium and longer term including measures critical to improving the domestic agricultural supply response. Through the International Finance Corporation (IFC), the World Bank Group (WBG) is also well positioned to extend support to the private sector to address the food price crisis and ensure suitable medium term investments are made. WBG has a strong presence on the ground in many of the most vulnerable countries and has the

systems in place to carry through a program to rapidly respond to the unfolding crisis in these countries.

6. The objectives of the proposed GFRP are thus to: (i) reduce the negative impact of high and volatile food prices on the lives of the poor in a timely way, (ii) support governments in the design of sustainable policies that mitigate the adverse impacts of high and more volatile food prices on poverty while minimizing the creation of long-term market distortions, and (iii) support broad-based growth in productivity and market participation in agriculture to ensure an adequate and sustainable food supply response. Thus, interventions need to be rapid, include the poor and disadvantaged, and contribute to achieving sustainable longer-run food security.

7. The program would finance a mix of stand-alone technical assistance, development policy and investment operations, drawing upon country and international experience under four components: (i) food price policy and market stabilization, (ii) social protection actions to ensure food access and minimize the nutritional impact of the crisis on the poor and vulnerable, (iii) enhancing domestic food production and marketing response, and (iv) implementation support, communications and monitoring and evaluation. As experience in dealing with short-run price spikes under new global market conditions is evolving, and the countries affected are diverse, these components provide a comprehensive menu of activities that could be financed under the GFRP. Countries will be able to select those interventions under the GFRP framework that are relevant to their individual situations. The program calls for – and will strongly endorse – integrated national responses that ensure common objectives across sectors. Development Policy Operations (DPOs) will be considered primarily in terms of the need for fiscal support arising from policy changes adopted by clients in response to the crisis. Such support is expected to be only a small share of the actual fiscal cost of the crisis and will be coordinated with IMF actions under the Fund’s newly amended Exogenous Shocks Facility (ESF). Longer-term lending to support investments in infrastructure will continue using regular Bank mechanisms, and support under GFRP would not displace longer-term agriculture-related lending such as investments in irrigation infrastructure, rural roads or agriculture research.

8. The GFRP includes a facility encompassing several funding sources, with an authorized ceiling of \$1.2 billion. Initial sources include a new single-donor trust fund (the Food Price Crisis Response (FPCR) Trust Fund) of \$200 million from IBRD surplus, of which \$85 million would be transferred from the current balance in surplus and the remaining \$115 million would be subject to further approvals in the context of the FY08 net income allocation process. At the same time, it is intended to create a multidonor trust fund under the facility that will be available quickly in the event other donors decide to support the GFRP effort. Restructuring of existing IDA and IBRD operations can provide additional resources, as could new operations under existing country budgets for IDA funding or IBRD operations. Further funding from IDA could be provided to the GFRP for activities that meet the requirements for regional funding from IDA. The GFRP would include projects and programs that are prepared and approved during the three year period FY09-FY11.

9. Management is asking for Board approval to expedite the processing of operations under the GFRP, whether financed from IBRD/IDA resources or from the FPCR Trust Fund. Investment lending operations under the GFRP would follow current practice for horizontal Adaptable Program Loans (APLs). That is, after Board approval of the first two investment operations, approval would be delegated to Management. Management approval would be ‘in-principle’ and project documents would be circulated to the Board for information, with approval becoming effective 5 working days thereafter. Per APL guidelines, projects would be presented for Board discussion if at least three Executive Directors so request. It is proposed that approval of DPOs under the GFRP after the first two, would, similarly, be delegated to Management. The process for DPOs would mimic that followed for investment operations, i.e., circulation of associated documents to the Board for information for 5 days prior to approval

becoming effective and Board discussion being scheduled if at least three Executive Directors request it. Management will review and update the Board every six months on the implementation of the GFRP.

GLOBAL FOOD CRISIS RESPONSE PROGRAM (GFRP)

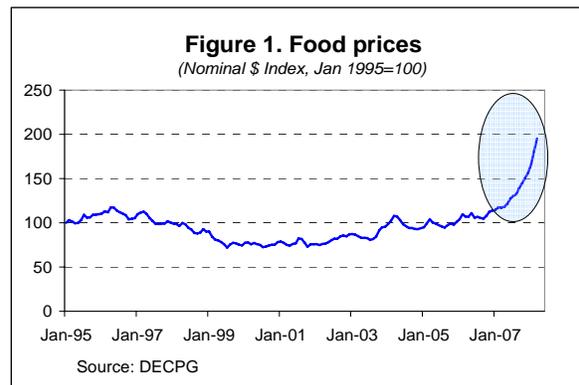
A. STRATEGIC CONTEXT AND RATIONALE

1. Global, Regional and Sector Issues

(a) Introduction

1. Rapidly rising international grain prices have fed into higher prices for staple foods in developing country markets, leading to severe hardships for the poor in numerous areas, a cut in the standard of living of the urban middle class, and social unrest in numerous countries. A rising trend in farm prices can be beneficial to poverty reduction, since three-quarters of the world's poor are rural and rely on farming for their livelihoods.¹ However, the recent spike in grain prices is for many developing countries a veritable crisis situation. Over three dozen countries have had serious episodes of social unrest associated with the recent sharp rise in food prices, and governments are justifiably concerned that increased political instability and further bloodshed will result. In most if not all areas of the developing world, the rural poor are either net grain purchasers or not far from being net purchasers, and a sharp rise in grain prices is on the whole likely to increase poverty.² Left unchecked, the rise in global food prices could result in 100 million more people living in low-income countries falling below the poverty line. The 2008 Spring Meetings of the World Bank and IMF Governors made clear that they considered alleviating the short run welfare impacts of spiking food prices, and helping to ensure that countries could be better prepared to cope with similar future crises, top priorities for World Bank Group assistance. Most developing countries have responded to the crisis by trying to cushion the impact on the poor. The policies that have been undertaken vary considerably in terms of whether they target the poor, are cost-effective, and the extent to which they are likely to create serious problems domestically or for neighboring countries.

2. The Governors also made clear that the World Bank needs to work pro-actively with other stakeholders, including the UN system, other donors, the private sector and civil society organizations to find both rapid and effective solutions. During the same meetings, the President of the World Bank Group emphasized the key emergency role of the World Food Programme (WFP) in distributing food aid and the need for donors to better support financial shortfalls for the WFP arising from rising food procurement costs. At the same time, he emphasized the key role going forward for financial institutions in dealing with a crisis that is one of markets and incentives but that is no less damaging than a natural disaster such as a typhoon or tsunami.



¹ World Bank. 2008. World Development Report 2008: *Agriculture for Development*. Washington, DC: World Bank.

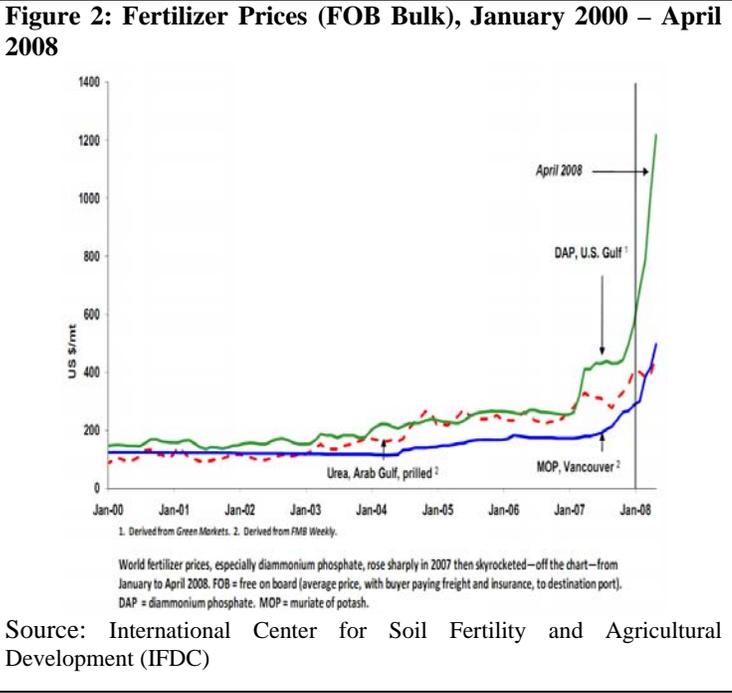
² Ivanic, Maros, and Will Martin. 2008. *Implications of Higher Global Food Prices for Poverty in Low-Income Countries*. Policy Research Working Paper 5495. Washington, DC: World Bank.

3. On April 28-29, 2008, in a meeting in Berne chaired by the UN Secretary-General, the Executive Heads of the United Nations specialized agencies, Funds and Programmes and Bretton Woods institutions, agreed on a common strategy in support of developing country governments to confront the global food crisis.

(b) Trends, Determinants and Global Stocks

4. The recent spikes in international food prices are now being closely tracked by governments, private industry, the media, and consumers. Rice prices have gone up from \$376 per ton in January 2008, to over \$1000 in April. U.S. wheat export prices rose from \$196 per ton in January 2007 to \$371/ton in January 2008 to \$440 per ton in March 2008.³ The surge in the first quarter of 2008 came on top of an 88 percent increase in overall global food prices during the three prior years (see figure 1). While the extent of global price transmission varies, there have been significant surges in domestic food price inflation over the past year in countries such as Sri Lanka (34%), Costa Rica (21%), and Egypt (13.5%). In many countries and regions, food price inflation is higher than aggregate inflation and is contributing to underlying inflationary pressures. Analysis of the longer-term trends underlying these price rises, suggests that while prices may have peaked and may decline a little, they are unlikely to fall back to the low and stable levels that characterized the 1980s and that prevailed until about two years ago.

5. Fuel and fertilizer prices have also risen sharply due to rising oil prices, which has increased agricultural production costs, especially since January 2007. The surge in fuel and fertilizer prices since then, shown for fertilizer in figure 2, is of particular concern with respect to its likely discouragement of smallholder farmers who supply much of the food in developing countries. For farmers in remote areas of Africa, for example, the sharply higher costs for fuel add greatly to costs of selling outside the local area and depress local prices compared to world prices. More generally, the similarities between figure 1 and 2 illustrate the growing link between food and fuel prices. This link operates on the output price side as well as on the cost side; higher prices for fuel raise demand and thus prices for biofuel feedstock, but also raise the costs of producing grain generally. Rising demand for biofuel feedstock such as sugarcane, maize, soybean, and palm oil, has led to increased competition for cropland, and has contributed to increased demand for grain. Rising income levels in many parts of the developing world have also steadily increased consumer demand over the past two or three decades for more convenient and value-added food products, including grain-based livestock products.

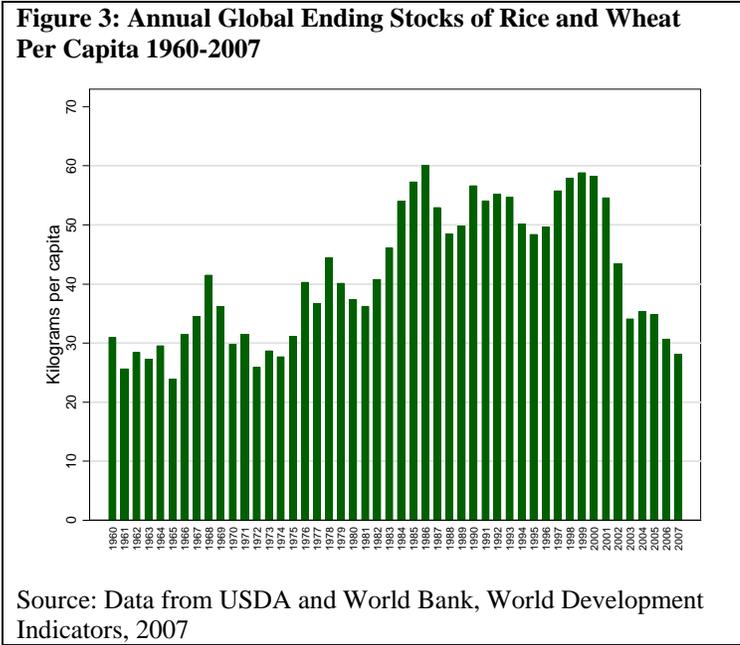


6. Policy reforms in the OECD countries in recent years have also led to the disappearance of large stocks that arose in the 1980s and 1990s as part of income support to farmers and conservation measures.

³ The Development Prospects Group. Washington, DC: World Bank.

Most significantly, the existence of these large stocks and the associated low and stable world prices for grains led to a state of complacency with reduced commitment to investment in grain productivity in developing countries in the late 1980s and 1990s, especially when compared with the previous global push for a “Green Revolution” based on improved varieties of rice, wheat and maize. The share of Official Development Assistance for agriculture was 17% in 1980, but only 4% in 2007.⁴ Against this backdrop of an emerging problem came supply factors such as recurring droughts and localized flooding in several countries and the re-emergence of scourges such as wheat rusts in major wheat producing countries. Taken together, these structural factors have led to a steady drawdown in global carryover food stocks since the end of the 1990s, as shown in figure 3.

7. Even with historically low global foodgrain stocks as a result of the combined factors discussed above, the most recent price spikes for cereals seem to have been driven primarily by market expectations and uncertainty. The latter is aggravated by a “prisoner’s dilemma” pattern in global grain marketing. Fear of being the sole residual seller or buyer for all participants regardless of domestic policy needs may have motivated a number of significant players to not play by open market rules. The likely result will be that some importing countries are hurt immediately and the (non-) exporting countries concerned will eventually be hurt as markets adjust without them and their own producers react to lower incentives. Several leading producers have imposed grain export bans or other restrictions, reducing broader confidence in international grain markets, while sending signals to others to build up strategic reserves. Many buyers are building strategic grain reserves even though prices are high, driving prices even higher. Whoever has possession of grain seems to be storing it in the belief that prices will go higher. The latter occurs not just at the state level, but at every stage of the supply chain as participants (including farmers and urban consumers) become convinced that it is in their interest to hold physical grain stocks. Doubtless bolstered by expectations of the willingness to buy at any price on the part of some, these restrictions have contributed to sharp price spikes, both in global and national markets, in recent months.



8. The immediate poverty impacts of rising food prices depend on whether households below or just above the poverty line are net food consumers or producers. In urban areas, the poor are almost all net consumers; fixed income workers are especially vulnerable. In rural areas, in most countries, the majority of the poor are net grain consumers. Over time wages adjust, but empirical evidence shows that they typically do not mitigate the full impact of the price increase or are very slow in responding. Preliminary estimates based on a sample of 9 low income countries and a number of broad assumptions suggest that food price rises since 2005 could lead up to 100 million people in developing countries to fall into

⁴ OECD. *Development Assistance Committee Annual Report*, various years. Paris: Organisation for Economic Co-operation and Development.

poverty.⁵ The impact on the distribution of poverty, such as whether the poorest bear most of the adjustment costs through reduced consumption, also needs consideration.

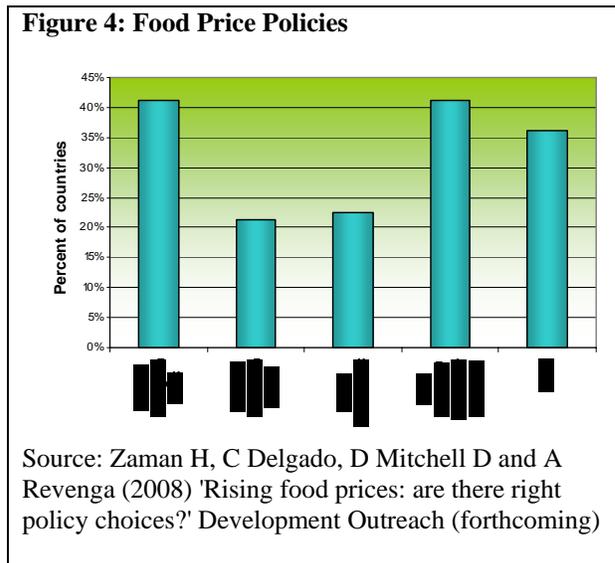
9. In many contexts the very poorest categories (comprising the rural landless or people in households which lack labor) will be among the most severely affected. The impacts of the crisis in terms of plunging those who are already poor into much deeper deprivation should be a primary concern for policy makers. The impacts on those who are weak, physically or socially isolated, suffer discrimination by gender or other social characteristics, and unable to access community support will need to be monitored and solutions found which may lie outside of the broad framework of this policy response.

10. The actions that governments may be forced to take amidst uncertainty and crisis, will go some distance to determining how severe the crisis will be, how long grain prices will remain subject to volatility and, how quickly sustainable policy remedies can be put in place. In the 1970s, and facing similar challenges, governments tried to impose direct control on physical production, marketing, and stocks of grain. Those policies were largely unsuccessful then and prospects for their success now, in an increasingly interlinked global economy, seem even less likely. An alternative approach is set out in this Program and places an emphasis on a mix of new policies, instruments and institutions that address the immediate needs of the poor, whilst also embracing policies and approaches that will ensure that, in the medium-term, agricultural systems are better prepared to address future, similar threats.

11. It is essential for both short-term and long-term policy interventions to recognize that rising food prices have the potential to create a serious "social crisis". There are a number of immediate impacts with longer-term consequences: two major ones are nutritional impacts on children and pregnant and lactating mothers that have lasting negative consequences on human development, and increased child labor and consequently less schooling. Other social impacts of the crisis may emerge over time such as migration, shifts in the informal sector, changing labor markets, shifting gender relations and a challenging of the faith in government to find solutions, which may undermine social cohesion in certain contexts.

(c) *Policy responses*

12. **Four broad types of policy intervention are being used by developing countries. Each has significant differences in positive and negative impacts, and they influence each other. Generally the most desirable strategy is one that lowers food prices to the poor and vulnerable while minimizing the introduction of market-distortions that will prevent achieving market-led solutions in the medium and longer run.** The magnitude of the food crisis suggests that it will be impossible to stabilize food prices and mitigate the impact of higher prices on poverty without a structure of incentives that mobilizes the private sector, including small farmers. Progress is needed on multiple fronts and on a scale that the public sector acting alone will not be able to provide.



⁵ Ivanic, Maros, and Will Martin. 2008. *Implications of Higher Global Food Prices for Poverty in Low-Income Countries*. Policy Research Working Paper 5495. Washington, DC: World Bank.

13. **The first type of policy response attempts to lower domestic food prices as quickly as possible through trade measures.** At first glance, reducing tariffs and other taxes on key staples is both effective and desirable. In times of sharply increasing prices, reductions in tariffs and taxes can provide some relief to consumers, albeit at a fiscal cost. Some thirty-three of eighty countries sampled in March 2008, had reduced such taxes in the wake of rising food inflation to lower costs to the poor (see Figure 4). Others continue to maintain high tariffs to protect domestic producers. Yet longer term, such unilateral changes in one tariff but not others may alter the structure of relative incentives and could end up channeling private resources to second-best uses in terms of growth and welfare, which illustrates the need to consider separately short and longer term responses.

14. The least desirable trade-related policy interventions to manage food prices are export restrictions or bans on key staples. Several grain exporting countries have implemented bans or increased grain export taxes in reaction to rising food prices. This type of measure often has a limited impact on domestic price levels and a significant negative effect on the earnings of domestic producers and exporters. Besides leading to sharp price fluctuations and supply uncertainty in countries that depend on imports, these measures often have the greatest negative impact on the country imposing the restriction as domestic production and foreign exchange earnings fall and traditional commercial relationships are severed.

15. **A second type of intervention is designed to quickly increase national control over physical foodgrain supplies.** About one-fifth of developing countries sampled have begun adding to grain buffer stocks, creating, re-creating, or adding to “strategic reserves”. These are often used to provide subsidized food rations for the poor. Recent price spikes in international markets, and the current difficulty in obtaining supplies, particularly in the rice market, suggests that more countries will try to increase domestic stockholdings despite the high costs of management and risks of leakage. If so, this is likely to perpetuate the price spike as participants go into global markets with higher orders than normal despite the much higher prices. An alternative approach using financial instruments rather than physical grain stores is for governments to enter into contingency purchasing contracts with domestic and/or international suppliers. These contracts can then be exercised if the critical need does materialize, for instance the need to provide safety nets.

16. **A third type of policy response relates to a range of consumer subsidy instruments with various degrees of targeting and use of market mechanisms.** Subsidies targeted to the poor for rationed quantities of basic staples and financed through the government budget are unlikely to create major disincentives for farmers or private traders, while alleviating the plight of those who need it most. On the other hand, generalized subsidies that are financed by capping producer prices are likely to have significant fiscal costs and create market disincentives for future grain supplies.

17. **Targeted safety nets and basic health and nutrition programs provide another form of consumer subsidy.** First best options include cash or near-cash transfers, such as food stamps which are the most common form of near-cash transfer. Eligibility may be based on criteria such as the beneficiaries’ income, location, or occupation (for instance in Brazil, Ethiopia, and Indonesia). It may also be based on beneficiaries engaging in a certain type of activity such as sending children to school or using maternal and child health care and nutrition services. Such eligibility criteria may very well exclude whole categories of the population which are in need, so careful design is necessary to maximize coverage of the vulnerable. Care is also warranted to minimize leakages, since safety nets have been used for political purposes in some cases. Such programs are not always feasible in low-income countries with weak administrative capacity. A number of countries such as Cambodia and Mozambique are using self-

targeted public works programs, which reduce the administrative costs otherwise involved in targeting.⁶ Others, like Afghanistan and Angola, are using emergency food aid distribution to ensure food security for vulnerable groups, often in partnership with agencies such as the WFP, although this can be costly in terms of physical transfer and potential leakages. Still other countries make effective use of school feeding programs, although these generally do not reach pre-school children, for whom the developmental consequences of malnutrition is most critical. Another cost-effective option is to improve the coverage and delivery of existing maternal and child health and nutrition services at the primary care level as it helps address the twin problems of poor health and malnutrition among poor children under two years of age and pregnant and lactating women - who are generally the most nutritionally needy and vulnerable subgroups within both rural and urban populations.

18. **The fourth set of policy (and program) responses occur at the same time as the immediate measures to improve food access for the poor.** These relate to using the prevailing higher food prices as a stimulus for increasing domestic food production, raising the incomes of poor (yet semi-commercial) producers, and undertaking investments which can improve capacities to manage increased grain price volatility and/or domestic supply shocks in the future. Some short-run policy options may limit the scope for longer-term supply solutions, such as those that seek to control markets through price ceilings, export restrictions, forcible procurement, or direct government involvement in marketing activities. Subsidizing agricultural inputs, in the face of rising fertilizer, seed, and fuel prices, can help prevent widespread exit from farming by the poor, a scenario that would greatly aggravate food problems at both the production and consumption ends. However, subsidies often involve significant trade-offs with other pro-poor public spending. Malawi's input subsidy program costs approximately 3% of overall GDP — the same as the entire primary education budget. Therefore short-term input subsidies need to be well targeted. The probable need for input subsidies in many countries in the short term under the present crisis and their high cost in the long term emphasizes the need for periodic in-depth public expenditure reviews in the agricultural sector and the continual assessment of the benefit incidence and opportunity cost of these subsidies.

19. Longer term, investments in basic rural transport and information systems have been shown to reduce prices and increase opportunities (e.g. Nepal, India and Central America), particularly in remote locations. Cutting transport margins between farms and cities is a win-win because it both raises prices for producers and lowers them for consumers, other things equal. Improvements in water management are a critical area going forward, and there is likely to be renewed attention to reducing post-harvest on-farm storage losses. Improvements in customs facilitation, logistics performance, post-harvest practices, and efficient grain storage can enhance producer responses as well as benefit consumers. Over the long term, the highest pay-off is likely to come from having effective innovation systems in place for using science and technology for development, including food productivity gains.

20. **Managing grain price risk is a fundamental requirement in a world characterized by more volatile international grain prices and recurring supply shocks that will likely result from global warming.** Regardless of which type of policy response is introduced, developing new ways to manage this risk while revitalizing the production response to higher prices and better distribution systems is a priority. Rebuilding confidence in markets for something as critical as food supply requires a new generation of financial instruments and practices that facilitate risk sharing among countries, traders, and individuals. Appropriate financial instruments can provide the security that is required for markets to return to normal, and in the medium term can mobilize significant new resources in the private sector to cut grain marketing costs and improve efficiency of grain markets.

⁶ Self-targeted programs are designed to minimize the incentives the non-poor may have in participating, typically achieved through a mix of rationing benefits (e.g. limiting food quantities), physical requirements (e.g. manual work for food), and queuing.

21. **All four policy responses can have significant and challenging fiscal implications.** The macroeconomic consequences of higher spending depend largely on how such spending will be financed. Additional budgetary costs financed via higher domestic borrowing can lead to higher overall inflation, while transferring costs to non-poor taxpayers may or may not be politically feasible. Diverting resources from other social sector spending or core public investments may have medium- and long-run opportunity costs, but may also provide an opportunity to reduce lower priority expenditures and reallocate these resources. Sound policy choices will seek to implement those solutions which are economically most efficient, yet reflective of political economy considerations. In some cases, first or second best policies may not be feasible or may involve difficult political choices. Generally poorer countries may need budget support as well as technical assistance to be able to implement needed policy changes in a timely manner, recognizing that the full fiscal cost of the food price rises will greatly exceed what can reasonably be secured in terms of additional budget support.

22. **Regardless of which response is chosen, it is especially important that national strategies to deal with escalating food prices have the flexibility to employ a wide variety of tools and approaches** to the issues, given that there is such variation even among the lowest income countries in the precise nature of the food price issue faced (unlike the avian influenza emergency), and in their institutional and infrastructural capacity to implement needed solutions (like the avian influenza emergency). While some countries need and are likely to request technical assistance in the first instance, many will need assistance with budget support. Others will want to implement investment projects rapidly to put in place farm support measures for inputs and services that help ensure levels of national food production in the coming year or two that are prudent for the situation of the country in question (e.g. depending on comparative advantage in food production, access to foreign exchange, proximity of consuming areas to ports, condition of transport infrastructure, etc.). When countries make such requests, this will provide another vehicle for the World Bank to work with more specialized agencies in addressing client needs.

23. Finally, recent events have demonstrated once again that in poor countries, “food” is not an economic “sector” like “textiles” or even “manufacturing”. Major price disruptions even for a short period are devastating to individuals as well as to societies, create intense anger or panic, and effective solutions must not only be prompt, but often require a high degree of political support from the population at large. **Clear and effective communication is important**, as are responsive institutions that offer a channel for citizens to communicate their own needs and priorities, and participate in formulating responses. Social accountability and transparency require participation that goes beyond one-way information sharing to joint-decision making. In this way, citizens are able to understand, engage with and influence policymaking and implementation.

(d) Regional Implications

Africa

24. Sub-Saharan Africa (SSA) is vulnerable to the current global problem of rising food prices because the share of imports in the region’s domestic consumption of cereals is high. The region, as a whole, is a net importer of cereals valued at US\$3.5 billion in 2006. The two dominant imported cereals in the region’s consumption basket are rice and wheat. Maize consumption is predominant in Eastern and Southern Africa, and rice consumption is prevalent in Western Africa. Wheat on the other hand is consumed in all areas of the region. The increase in cereal prices has direct impacts on household welfare owing to the relatively high proportion of cereals in the household consumption basket in most SSA countries. Region-wide, average daily caloric intake per capita is 2,217 calories, of which cereals account for 50 percent. Average caloric intake per person masks variations between different parts of the region as well as power and food distribution between and within households. There is evidence that women and

children consume fewer calories than men in all SSA regions, which makes them significantly more vulnerable.

25. The predominance of imported cereals (rice and wheat, in particular) in the food basket of many SSA households suggests that rising prices of these cereals can have dramatic social implications, particularly for the poor. Moreover, the increase in the price of these grains may indirectly add to upward pressure on the prices of millet, sorghum and other traditional staples. Many countries in West Africa, the Horn of Africa, and fragile African states are especially vulnerable to the food crisis. A number of SSA countries have already experienced protests or riots associated with rising food prices, including Burkina Faso, Cameroon, and Côte d'Ivoire. The social implications are particularly dire for African countries that had to cope simultaneously with price shocks associated with rising global food prices and local supply side shocks such as cyclones in Madagascar, civil strife in Kenya, and floods in Uganda. The adverse effects of the food price crisis on affected countries are particularly pronounced among those countries that are not benefiting from the current commodity boom. According to preliminary estimates by the IMF, the effects of higher food and fuel prices on the trade balances of member countries of the West Africa Economic and Monetary Union (WAEMU)—many of which are net rice importers—will amount to some 1.5 to 3 percent of GDP in 2008.

East Asia

26. East Asia is highly vulnerable to price volatility in rice, the region's primary staple crop. East Asia produces some 60 percent of the world's rice, and despite diversification rice continues to account for about one third of total crop land. There are few substitutes for rice in most of East Asia. However, several years of low prices resulted in sharp reductions in on-farm and public investments in rice productivity. The subsequent draw-down of regional stocks left East Asia acutely vulnerable to global shocks in production costs and grain prices. Region-wide, the poor are at particular risk as food typically accounts for 65 percent of expenditures for the almost 260 million poor living on \$1 per day or less, and rice typically accounts for at least half of this. Major rice importing countries such as Philippines and Indonesia have been particularly impacted given their dependency on traded rice and pre-existing import tariffs which result in higher than world market prices for consumers.

27. All countries in EAP have responded to the rapid increase in rice prices with short-term policy measures. The main importing countries—Philippines and Indonesia—have increased purchases of rice on the open market at high prices. Self-sufficient and exporting countries—Cambodia, China, Lao PDR, Malaysia, Myanmar, Thailand and Vietnam—have imposed additional restrictions to reduce or suspend rice exports. Cambodia, China and Myanmar have also released public and private stocks into the markets, generally with some attempts to target the poor and more vulnerable urban areas. In addition to these specific short-term measures, a number of countries in EAP have requested assistance in developing policies and programs to provide better targeted safety-net support, as well as to eliminate constraints that weaken the agricultural supply response through policy reforms, input markets, and improved research and extension programs.

Europe and Central Asia

28. Between 2006 and 2007, food prices in Europe and Central Asia (ECA) rose by 6.4 to 14.8 percent, with significant differences across the region. ECA followed global food price trends, but global prices were not evenly transmitted into the regional and domestic food inflation, owing to the weakening dollar, domestic infrastructure, and different price stabilization policies. Most challenged were the middle income Commonwealth of Independent States (CIS) countries, where food inflation soared from 6.5 to 20.3 percent between the two years. The increases were smaller but still significant in the low income CIS countries—from 10.7 to 17.1 percent, and in EU10 – from 5.6 to 13.8 percent. Food price inflation has

been much higher than overall inflation, which rising food prices have contributed to. Inflation in ECA rose from 6 percent in 2006 to 10 percent in 2007. The highest price shocks have taken place among food grains, which often reached a multiple of average inflation. In general, the increase in food prices mostly impacts the poorer countries in Central Asia, where food accounts for as much as 50-60 percent of the consumer price index (CPI). While some of the biggest shocks did occur in food importing countries (for example Kyrgyzstan), even net food exporters were hit hard by food price inflation such as Ukraine where food prices rose from 3.5 to 23 percent between 2006 and 2007. The implied poverty impacts in the region are high because of the shallow nature of poverty in most ECA countries. Yet the rapid increase in household incomes across the region is helping the population absorb the price increases.

29. Soaring food prices generate significant distributional and poverty impacts, particularly in ECA's low income countries. Simulations have shown that a 5 percent increase in food prices relative to the overall CPI increase would cause the poverty rate (based on a poverty line of US\$2.15 in 2000 purchasing power parity) to increase by about 2 percentage points in Albania, Georgia and Azerbaijan, and by almost 3 percentage points in Moldova. This occurs because of the higher weight of food in the consumption baskets and the shallowness of poverty in the low income countries.

30. Governments in the region are concerned and have taken policy action in an attempt to provide immediate relief to consumers. In the new member states, the EU has provided a strong policy anchor and generally precluded undesirable policy responses. However, other countries in ECA have responded to food price increases mainly through export restrictions and domestic price control. These measures depress domestic prices in the short-term, but disrupt the transmission of international price signals to the farm gate – price signals that would otherwise reduce prices by encouraging private investment and production.

31. The ECA Region includes some of the few countries from where a significant and sustained supply response to the global crisis is expected. Russia, Ukraine and Kazakhstan are already major players on global grain markets accounting for some 13 percent of global wheat production (FAO forecast for 2008). But, many countries in the region have imposed distorting policy measures which have negatively affected domestic production and international trade and hence global food supply. The Russian Federation has imposed export duties on grain exports (increased to 40 percent for wheat in January 2008) and engaged in a temporary agreement with the largest food retailers and producers in October 2007 to freeze prices on selected types of bread, cheese, milk, eggs, and vegetables. In the autumn of 2006 Ukraine introduced export quotas, later converted to export licenses, for some grain categories and locally capped profit margins on bread sales. The quotas were significantly extended in April 2008 from 200 to 1,200 million tons, but restrictions have subsequently been lifted. Kazakhstan also introduced export licenses for wheat in the autumn of 2007.

Latin America and the Caribbean

32. Food inflation has increased across the entire Latin America and the Caribbean (LAC) region. It has affected countries that are net food exporters as well as net food importers. The increase in food prices has a direct impact on overall inflation in most countries as the weight of food in the consumption basket used to calculate the consumer price index is large. In 2007 food prices rose substantially faster than the overall rate of inflation for most countries in the region. The widespread nature of food inflation across the region – and the world – suggests a strong pass-through from international food prices to domestic prices in the LAC region. The increase of international food prices has been particularly large for fats and oils, and for cereals. The evolution of the price of grains largely explains why specific food products like bread have seen sharp increases in prices across the region. While consumers in all countries will be hurt, initial analysis indicates that the sub-regions most likely to be severely impacted by the

combined effects of rising food and energy prices are Central America and the Caribbean; while some of the Andean countries are exposed to nutritional impacts.

33. Governments across the region are concerned at the recent spike in food inflation. Many countries already have policy actions in place, such as consumer price and agricultural input price subsidies. Some are responding by scaling up Conditional Cash Transfers (CCTs) and other targeted programs already in existence (Ecuador, Paraguay, and Haiti for example), while others have resorted to export restrictions (Argentina, Bolivia, Brazil, and Ecuador) and to selective, temporary food price controls (for example Argentina).

34. The Bank in LAC has completed a diagnosis of the situation and is supporting Governments to produce rapid, relevant program and policy responses. A 'Poor Person's Price Index' has been developed to estimate the effective inflation rate faced by the poor – showing that it is considerably higher than the official rate in many countries in LAC. For example, in Jamaica, Honduras and Panama, inflation for the poor is running over 20 percent ahead of general inflation. The groups most affected are likely to be the extreme poor and the rural poor. Analysis of patterns of food production and consumption has shown that the vast majority in Nicaragua, Guatemala, Honduras and El Salvador are *net consumers* of food. As a result, most Central American households will suffer short-term welfare declines.

35. The increases in food prices are of particular concern in those LAC countries that already suffer from high malnutrition rates. Chronic malnutrition is already above 25% in Haiti, Guatemala, Honduras, Bolivia, Peru, and Ecuador. Evidence suggests that deficient complementary feeding for children aged between 6 and 24 months is a major cause of stunting, especially in highland indigenous areas. The danger now is that families hit by price rises might react by further reducing complementary feeding. To offset this risk, as well as finding ways to target compensatory transfers on the worst-hit households, it will be important to promote communications strategies on the importance of protecting the diet of children under two. The Bank has developed such tools in the Andean countries, including a hard-hitting video on malnutrition in Peru. The region is also working on linking income transfers to nutritional outcomes by supporting CCTs focused entirely on nutrition-related behaviors (eg in Bolivia).

36. The increase in food prices has hit especially hard in the poorest countries, such as Haiti, where 26% of children under 5 are chronically malnourished and food staple imports amount to 69 kilograms per capita. The Bank is responding with the preparation of a \$10 million emergency grant to be funded by the GFRP and is exploring the possibility of accelerating disbursements on the existing loan. In addition the Bank is preparing financing support to scale up existing CCTs.

Middle East and North Africa

37. The consequences of the rise in grain prices and reduced availability on the world market have been equally challenging for the countries in the Middle East and North Africa (MNA). These countries have traditionally relied on the global market to meet a substantial part of their grain demand. In 2007 the region imported 27 percent of total world grain imports. The impact of higher food prices varies by country and by income groups. Some of the Gulf countries in MNA import *all* their staple food. For them, the issue is not so much the rise in prices as it is the availability of cereals on the world market. Other countries rely on the international market to cover between 20 and 80 percent of their cereal needs. With social unrest looming and recent riots in response to food price increases, the availability of cereals at affordable prices is a source of increasing political concern, leading governments to seek barter arrangements with countries that produce cereals, (i.e. Libya with Ukraine, Jordan and Saudi Arabia with Sudan).

38. The problem is acute for countries which are not oil exporters, since the issue of availability is compounded with the problem of rising prices. This places an added burden on government budgets as food and feed grains tend to be heavily subsidized. Food price increases are likely to increase poverty in the short run. Poverty in MNA affects 20 percent of the population (\$2 a day at PPP), with considerable variation across countries. The poor and near poor (which include the urban poor, rural landless and small and marginal farmers) on average spend half of their incomes on food, are the net buyers of food, and stand to lose from increased food prices. In some countries spikes of inflation resulting from increasing food prices are undoing the progress in poverty reduction achieved over the last five years of economic growth, as in Yemen. In addition to increasing basic poverty, limiting access to food risks worsening the already serious levels of child malnutrition in countries like Yemen (45%) and Djibouti (26%), and areas such as Upper Egypt.

39. MNA governments have long employed targeted or broad-based systems of consumer subsidies to manage the risks of social unrest. Until the recent spike in prices, producers were also paid farm gate prices above the international prices while prices paid by consumers were kept below the cost of domestic production. Today, world prices have overtaken the domestic support prices. However, while most MNA governments have raised administered farm gate prices, they have not let the full price increase go to producers. With the increase in food and energy prices, government interventions in food-related markets and energy subsidies have become increasingly difficult to manage. Most importantly these food and energy subsidies are taking an ever larger share of government budgets and increasing fiscal deficits, while supporting artificial price regimes. Governments in MNA have tried to respond by stepping up food subsidies, imposing or tightening price controls, restricting exports and cutting food import duties. However the longer term objective of switching from the blanket food subsidies now in place at high fiscal costs to targeted cash transfers requires that the beneficiaries be identified individually. The kinds of databases that would make such identification possible are not available in most MNA countries at present and will be explored under the GFRP. On the supply side, governments in the region are considering or taking measures to increase domestic agricultural production. Potential gains in agricultural productivity can materialize if agriculture is put back on the development agenda.

South Asia

40. Global food price inflation creates short-term challenges but also provides medium-term opportunities to revive agriculture. Most of the poor in South Asia live in rural areas, and agriculture is critical to their livelihoods. The impacts of food price inflation have thus far varied greatly by country in the region over the last 12 months. It was relatively low in India at 4 percent and in Nepal at 8 percent, but considerably higher in Bangladesh and Pakistan (15 percent), Afghanistan (30 percent) and Sri Lanka (34 percent). The prices of staples on which the poor spend a great deal of their income have generally increased faster. Rice prices for example have about doubled in Bangladesh and increased by over 50 percent in Pakistan.

41. Crop forecasts suggest that the region is likely to benefit from good rice and wheat harvests. India and Bangladesh have moreover recently rebuilt their buffer stocks. Together, these developments should ease somewhat near-term price pressures. In Bangladesh, rice prices are expected to stabilize quickly in the short-run consequent to the bumper harvest of rice crop in the ongoing *boro* season. Lower prices may reverse earlier export ban decisions in exporting countries which should benefit net cereal importing countries such as Afghanistan.

42. The food situation in South Asia will remain serious in the short run, and quite possibly longer. The vast majority of the poor are net buyers of food. In Bangladesh some 80 percent of the poor are net food consumers. Many spend over half of their income on food. In addition to the effect that rising food prices are having on the quantities of food consumed by the poor, high expenditure elasticities for protein-

and vitamin-rich foods suggest that the composition of their diets is changing toward less nutritious foods. The poor are also likely to reduce spending on non-food items such as health and schooling, with serious medium- and long-term consequences for household welfare. Less education and poorer health reduce income-earning potential, while reduced consumer spending on other goods and services slows economic growth.

(e) *Global dimension: what partner organizations are doing about the food crisis*

43. **Partnership is indispensable in dealing with such a large and multi-faceted crisis.** Bank activities under the food crisis are therefore in support of the coordination effort led by UN Secretary-General Ban Ki-moon. President Zoellick has actively promoted increased funding to WFP as the main priority in providing a fast response to the suffering occasioned by the crisis. The GFRP then provides a framework for the Bank to coordinate its own response to the crisis in partnership with other multi-lateral organizations and donor agencies. The GFRP specifically contributes technical support to the evolving coordination role of the United Nations Task Force on the Global Food Crisis established recently in Berne. Lead members of the GFRP team are in daily contact with the UN Task Force secretariat in New York, and a senior Bank staff member has been outposted to New York to work with the Task Force secretariat for May and June while coordination arrangements are being set up. Bank senior management has also instructed the management of Bank country offices to coordinate in-country actions with UN resident coordinators, as agreed at the Board of Chief Executives (CEB) meeting in Berne in April presided over by the UN Secretary General. Key coordination of activities will occur at the country level, beginning with joint needs assessment missions. There are a large number of organizations that can help in this crisis, with only a sampling of some main actors below.

44. **The World Food Programme (WFP)** is the UN Agency whose mandate most directly addresses the food price crisis. WFP purchases food from third parties using donor funds and accepts food donations in kind for redistribution through a variety of mostly targeted programs. WFP has identified a shortfall in funding of \$755 million due to rising food prices, and is aggressively fundraising for these resources. The WFP has outlined a three-pronged approach to respond to the evolving crisis which includes:

- Immediate steps to meet urgent needs, prevent a nutritional crisis and stabilize the situation;
- Medium-term measures to boost agricultural production;
- Long term efforts to build a policy environment conducive to pro-poor growth.

45. **The Food and Agricultural Organization (FAO)** of the United Nations offers technical and policy assistance to the most affected countries in an effort to increase food supplies and prevent crises in the upcoming agricultural seasons. The Initiative on Soaring Food Prices (ISFP) was launched by the Director-General on 17 December 2007. ISFP will:

- Apply a twin track approach emphasizing both short and long term solutions;
- Emphasize country specific interventions;
- Play a catalytic role;
- Build a strong partnership with Rome-based agencies and International Financial Institutions (IFIs) to address the high food price crisis;
- Integrate short-term measures to address the high food prices crisis into longer-term national policies and strategies for food security.

46. **The International Fund for Agricultural Development (IFAD)** is the only financial institution of the UN system dealing with food issues and it is collaborating with WFP and FAO on reprogramming loans for immediate response to the food price crisis. IFAD has identified 45 loans related to agricultural production in 26 affected countries with undisbursed funds totaling nearly \$800 million that might be

suitable for reprogramming. It is considering requests for reallocation of some \$200-300 million of these funds to boost food production by providing essential inputs to poor farmers in the next 12 months. Haiti is likely to be the first case, with a reallocation of \$15 million for purchase of fertilizer and seeds.

47. **The International Monetary Fund (IMF)** in the present context is primarily concerned with macroeconomic issues arising from rising food prices, including addressing balance of payments and fiscal issues. It has set up an inter-departmental working group to focus on appropriate policy advice and improving lending instruments. The main IMF options for assistance to countries affected by the food crisis are to:

- Promote lending through the Poverty Reduction Growth Facility (PRGF) for countries that have a PRGF program in place. PRGF programs include concessional lending terms. Discussions are ongoing for augmentation through the PRGF for a total of about \$150 million.
- Promote lending through the Exogenous Shocks Facility (ESF) for countries that do not have a PRGF program in place. ESF has been in place for 3 years, but never used due to stringent conditions. ESF also involves concessional terms. Discussions are ongoing on how to modify the ESF to address the crisis related to commodity price fluctuations. Likely solutions to be considered by the IMF Board in June will involve rapid disbursement of up to 15% of country quota under less stringent conditions.
- For middle income countries that do not qualify for concessional terms, IMF is revisiting the conditions required for access to the non-concessional Compensatory Financing Facility (CFF), which was extensively used to deal with commodity price shocks in the early 1990s, but has not been used since a tightening of conditions in 1999.

48. **The World Health Organization (WHO)** and **United Nations Children's Fund (UNICEF)** have been collaborating to respond to the food price crisis, primarily through health ministries. They are concentrating on promoting and delivering immunizations and vitamin A supplements. WHO has stepped up its support in Djibouti, Eritrea, Ethiopia, Kenya and Somalia, where severe drought increases the risk of starvation and disease. Food distribution has begun in most of the affected areas as part of a larger package. WHO's initial estimated financial requirement in this region is a total of US\$12.3 million, which would support health coverage of people at risk over the next nine months. WHO has already received an initial \$1.5 million from the recently revised United Nations Central Emergency Response Fund (CERF) to boost its health work in the short-term. The remaining \$10.8 million is being requested through the UN Consolidated Appeal (CAP) for the Horn of Africa that was launched in early April 2008. In the Americas, PAHO/WHO and UNICEF have agreed to launch a new initiative to address the needs of communities with the highest level of maternal and infant mortality and chronic malnutrition, including border areas and the poorest villages.

49. **The Consultative Group on International Agricultural Research (CGIAR)**, established in 1971, is a strategic partnership of 64 governments, international and regional organizations, and private foundations supporting the work of 15 international agricultural research centers committed to addressing hunger and poverty. The centers work on food and agriculture policy, crop and animal productivity and sustainability issues. The International Food Policy Research Institute (IFPRI) is one of the centers engaged in research and communication initiatives that pertain directly to the food price crisis. This includes empirical research on the drivers of food price increases, better targeting of relief to the very poor, assessing options to promote supply response by smallholders; and engaging and informing the media around the world about causes of food price inflation and possible policy actions to mitigate the impact on the poor.

50. **Multilateral Development Banks:** Multilateral Development Banks (MDBs) including the Asian Development Bank (ADB), African Development Bank (AfDB) and Inter-American Development

Bank (IDB) have also announced recent measures to respond to the food crisis. The ADB will provide immediate budgetary support to the hardest hit countries in Asia and the Pacific to alleviate their fiscal burdens and cushion the impact of rising food prices on the poor. ADB has announced plans to lend \$1 billion to the agricultural and natural resources sector in 2008 and double this lending in 2009. The IDB is providing assistance to the Haitian government as it carries out an emergency plan to contain food prices, create jobs, and revive agricultural production. The AfDB Group has committed to add US\$1 billion to its agriculture portfolio as part of a short-term strategy to help address the food crisis in Africa. It is also restructuring some of its agriculture portfolio to provide a rapid disbursement facility

51. **Bilateral Aid Agencies:** Bilateral donors are actively responding to the food price crises both through their support to multilateral organizations and directly in their own programs. To mention only a sample of these agencies, Department for International Development (DFID) is seeking to galvanize a coordinated and comprehensive international response and the UK government has announced a \$910 million aid package, including support to WFP. United States Agency for International Development (USAID) is channeling additional US government funding of \$200 million and re-programming \$40 million of its existing budget to emergency food aid. President Bush has also called on Congress to approve an additional \$770 million to support food aid and agricultural development programs in fiscal year 2009. The Canadian International Development Agency (CIDA) has just announced the complete monetization of its food aid contribution and additional CAD 50 million in emergency food aid funding. The Government of Japan has announced that it will provide an additional \$100 million in food aid within the next three months as an emergency measure to respond to the food crisis. About \$50 million of the aid will be provided mainly to countries in Africa in May through the WFP under its emergency appeal. This is in addition to \$68 million already contributed in 2008 to WFP. Prime Minister Fukuda has indicated his intention to raise the food crisis issue at the G8 summit to be hosted in Japan this summer.

2. Rationale for World Bank Group Involvement

52. The severity of the global food crisis raises the prospect that a decade of progress on poverty alleviation may be lost, and provides the most compelling rationale for the rapid and comprehensive approach proposed under the GFRP framework. The World Bank's main comparative advantage lies in its ability to: (i) rapidly provide significant funds to countries at risk, (ii) undertake policy analysis drawing upon country, regional and global experience, (iii) assist countries to utilize a mix of innovative financial instruments to mitigate a portion of the increased food price risk, partially alleviating the need for costly physical remedies such as strategic grain reserves, (iv) designing and delivering well-targeted social protection responses to mitigate the effect of the price rises on the poor and vulnerable, and (v) support policy and programmatic responses over the medium and longer term including measures critical to improving the domestic agricultural supply response. The World Bank also has a strong comparative advantage in providing multi-sectoral expertise that is required to put in place integrated technical, social, economic, and institutional solutions to address food security concerns and effectively mitigate the adverse effects of rising food prices. In addition, the World Bank Group has a strong presence on the ground in many of the most vulnerable countries, including expertise in policy analysis, and has the systems in place to carry through a rapid program to respond to the continuing crisis in these countries.

53. Similar to the Global Program on Avian Influenza, the Framework facilitates a rapid Bank response using all available tools. Support under the GFRP would not displace longer-term agriculture-related lending such as investments in irrigation infrastructure or agriculture research and development. Under the framework, countries will be able to select from a menu of interventions that are relevant to their individual situations. Through the International Finance Corporation (IFC), the World Bank Group is also well positioned to extend support to the private sector to address the food price crisis and ensure suitable medium-term investments are made.

54. The International Finance Corporation (IFC) has prepared an action plan to alleviate the combined impact of rising food prices and global credit crunch through support to a strong private sector response to this challenge. The main elements are:

- A working capital facility targeting clients in good standing for short-term response.
- Producer credit lines for clients who face difficulties in refinancing their medium-term credit lines due to the increased risk aversion on global markets.
- Dedicated credit lines to financial intermediaries that will allow them to relieve constraints on their exposure to the agribusiness sector by sharing a portion of the borrowers' credit risk.

55. In the area of boosting supply response, IFC will also significantly scale up its Agribusiness program with specific focus on Sub-Saharan Africa. The strategy will focus on the following components:

- *Productive land.* This will mobilize agricultural land in countries with unexploited land potential, and improve productivity of agricultural land currently in use. The IFC will also work with the World Bank on selected pilot countries to accelerate the development of active land markets. A number of investments in dedicated investment funds or agribusiness companies are currently being pursued.
- *Logistics.* The IFC will pursue projects that generally improve agriculture and food logistics such as port terminals, cold storage and distribution/logistics that it intends to finance under its regular procedures.
- *Financial markets.* The IFC will scale up its partnership with local financial intermediaries in order to further its reach to micro, small and medium enterprises and to farmers. This will be through a combination of investments and technical assistance. The IFC will also explore the systematic development of new financial instruments related to the financing and management of risk for agricultural commodities.

56. The World Bank Group is well-positioned to address the “public good” aspect of compiling and extracting lessons from individual country efforts and experiences in responding to high and volatile food prices. In doing so, it is also well placed to address the “prisoner’s dilemma” aspects of the current price spike discussed under paragraph 7 above and help foster an environment of global cooperation. It would do this through consultations, analytic work, assessment of the impact of new risk management tools, and active dissemination of good practice.

3. Higher level objectives to which the program contributes

57. The overall objective of this Program is to minimize the threat posed by high food prices and sharply rising agricultural production and marketing costs to the livelihoods of poor urban and rural residents in developing countries. Achieving these goals will diminish the global burden of hunger and poverty, and will enhance economic and social prospects at the global, regional and country levels.

B. PROGRAM DESCRIPTION

1. Coordination

58. **Ongoing dialog.** At the Spring Meetings of the IMF/World Bank in April 2008, Ministers from over 150 countries endorsed a proposed “New Deal for Global Food Policy”. The key elements of the New Deal are: (i) the need to embrace a short, medium and long-term response, (ii) support for safety nets such as school feeding, public works, and conditional cash transfer programs, (iii) increased agricultural production, (iv) a better understanding of the impact of biofuels, and (v) action on the trade front to reduce distorting subsidies, and trade barriers. The World Bank announced that it would double

agricultural lending to Africa and that it would explore with its Board the creation of a rapid financing facility capable of providing grant support to especially vulnerable, poor countries most severely affected by the food crisis whilst also offering quicker, more flexible financing for others.

59. Meanwhile, the Executive Director of the WFP urgently requested the world's donors to fully fund emergency requirements of US\$ 755 million for the World Food Program, to deliver rapidly on their pledges, and to provide maximum flexibility to enable WFP to target the most urgent needs. The Director-General of FAO announced an FAO Emergency Initiative on Soaring Food Prices, the re-allocation of \$17 million in trust funds to that purpose, and called for US\$ 1.7 billion in funding to provide low income food deficit countries with seeds and inputs to boost production. IFAD announced that it is making available US\$200 million to poor farmers in the most affected countries to boost food production by providing essential inputs.

60. The Executive Heads of the United Nations specialized agencies, Funds and Programs and Bretton Woods institutions, including the President of the World Bank Group (collectively the "Board of Chief Executives" or CEB), then met in Berne, Switzerland, on April 28 and 29, 2008, under the chairmanship of UN Secretary-General Ban Ki-moon. They agreed on a common strategy in support of developing country governance to confront the global food crisis and decided the following.

61. First, the hungry must be fed. The rapidly escalating price of food is severely impacting the poor in developing countries, resulting in heightened vulnerability, reduced levels of nutrition with serious health impacts, and rising social tensions, and impaired human capital accumulation. The CEB called upon the international community to urgently and fully fund the emergency requirements of US\$ 755 millions for the World Food Program and deliver on its pledges and provide maximum flexibility to target the most urgent needs. Second, action must be taken to provide developing country farmers with the support required to ensure the next harvest. Escalating energy, fertilizer and input prices are leading farmers to plant less in the coming season and will lead to even more severe food shortages in the coming year.

62. The CEB also agreed on the need to address multi-faceted challenges in the short, medium and long terms. In the short to medium term, the UN system will cooperate together and with the World Bank Group and the IMF in crisis response, the development of emergency safety nets and social protection of the most vulnerable and rapid employment and income generation programs. All institutions will deploy their capacity in the monitoring, quick assessment and analysis of the rapidly evolving food price trends and their impact on vulnerability to support the response of affected national governments. The IMF will propose to its Executive Board additional financial support for countries facing serious balance of payment gaps as a result of higher food and oil prices. The CEB also called upon countries that have imposed export restrictions on food and contributed to price hikes to urgently reconsider those policies.

63. For the medium to long term, the assembled agencies will bring together their technical and analytical capabilities to fill research and knowledge gaps in order to support governments with the best information for agricultural decision-making to boost production and productivity. The CEB highlighted the need for an assessment of the diverse impacts of the crisis and the development of sets of tailored policy instruments for an effective response.

64. Domestic policy measures that correct distortions and do not jeopardize the supply response need to be put in place very soon, together with budget support measures and balance of payments support for the most affected countries. The CEB called for a rapid conclusion of the Doha Development Round resulting in scaling down trade distorting subsidies that have damaged developing countries production capacity.

65. Moving to longer term issues, the CEB underscored the urgent necessity to address the structural and policy issues that have substantially contributed to this crisis and the challenge posed by climate change to productive systems. They underlined that further research must be undertaken on the impact of diversion of food crops to biofuel production and all subsidies to food-based biofuels should be reviewed. Emphasis was put on addressing the specific needs of Africa as the most affected region, including through relevant African programs such as CAADP. The IFIs, MDBs, and relevant agencies of the UN system agreed to collaborate to develop a long-term strategy, including the required macro-economic measures for increasing productivity, production and marketing in agriculture and ensuring availability of and access to food.

66. **Coordination framework.** In order to create a prioritized plan of action and coordinate its implementation, the CEB has decided that a Task Force on the Global Food Crisis be established immediately under the leadership of the Secretary-General and bringing together the Heads of the United Nations specialized agencies, Funds and Programmes, Bretton Woods institutions and relevant parts of the UN Secretariat. The Task Force will be co-coordinated by Assistant Secretary General John Holmes and the United Nations System Influenza Coordinator, David Nabarro.

67. The CEB also noted forthcoming high-level gatherings where food price issues will be high on the agenda. In particular, the UN Secretary-General called on World Leaders to make every effort to participate in the FAO High-Level Conference on Food Security in Rome on 3 to 5 June 2008. Other high-level meetings where rising food prices will be high on the agenda include the Tokyo International Conference on African Development (TICAD IV) in Tokyo in May, the G8 Summit in Hokkaido in July, and the September High-Level Event of the General Assembly on MDGs.

68. At the country level, UN Resident and Humanitarian Coordinators and Heads of World Bank country missions are mandated to work together with national governments to convene UN agency teams, World Bank country office teams, other donors and humanitarian agencies in affected countries. The goal is to work together to draw up country support strategies for vulnerable populations, address food price rises more generally, identify gaps, avoid duplication, create synergies, and seek international support for implementation.

69. At the regional level, it will be important to align project activities to the deliberations of regional organizations with high regional legitimacy for developing country solutions to problems that have large spill-overs or externalities across national borders. The current food crisis creates such spill-overs and externalities in some regions, especially where countries are relatively small, borders are porous, or countries need to transit other countries to have access to international grain markets. Landlocked countries in Africa are an example. In the African case, the Comprehensive Africa Agricultural Development Programme (CAADP) under the New Partnership for Africa's Development (NEPAD) has high legitimacy in many countries as a regional mechanism for promoting agricultural development. Food security is a key component of the third of CAADP's four agreed strategic pillars. The African Union Commission (AU) and NEPAD both support CAADP as a vehicle for harmonizing donor activities with regional and national priorities. For example, the African Union Commission and NEPAD, in collaboration the World Bank, the Food and Agriculture Organization (FAO) and the World Food Programme (WFP), are holding a Food and Nutrition Security Workshop May 20-23, 2008, in Johannesburg. The main goal of this workshop is to assist countries in Africa to formulate an appropriate country framework of specific food security interventions that boosts food production, availability and access to food for the most vulnerable and helps cope with higher and more volatile food prices. The GFRP will assist the World Bank's Africa Region in its strong support of the CAADP process.

70. **Bank contribution.** The GFRP provides an overall framework for the Bank to coordinate its own contribution in partnership with other multilateral organizations and donor agencies. Funding sources of

up to \$1.2 billion are envisaged under the GFRP. Initial sources include a new single-donor trust fund (the Food Price Crisis Response (FPCR) Trust Fund) of \$200 million from IBRD surplus, of which \$85 million would be transferred from the current balance in surplus and the remaining \$115 million would be subject to further approvals in the context of the FY08 net income allocation process.⁷ At the same time, it is intended to create a multidonor trust fund under the GFRP facility that will be available quickly in the event other donors decide to support the GFRP effort. It is also anticipated that country-based IDA or IBRD could on the whole contribute up to \$800 million in funding to the GFRP. Up to a further \$300 million in funding from IDA's regional funds could be provided to GFRP for activities that meet the regional requirements of IDA. Depending on specific country needs, the full range of Bank interventions will be available, including stand-alone technical assistance, Development Policy Loans, and investment lending, as set out below.

2. Instruments of Bank Support

71. Under the GFRP, the Bank (IBRD/IDA) will provide technical and financial assistance to support governments in their immediate and medium-term response to the crisis resulting from shortfalls in domestic food availability in combination with rising international food prices.

72. Depending on specific country circumstances and needs, the full range of Bank lending and non-lending instruments will be available to clients. All Bank member countries and non-member countries, but assistance to which is in the interest of the Bank and that are affected by the food crisis will be eligible to request support under the program. All operations prepared under the GFRP will be processed using expedited procedures. In addition, IFC will provide lending and advisory services to affected clients, as described in detail in section A.2 of this report.

73. **Purposes.** The GFRP provides an umbrella for rapid Bank support to address different aspects of response to the crisis; indicative but non exhaustive examples are:

- (i) ***Enhancing household food security*** by strengthening targeted safety nets and maternal and child health and nutrition services and improving both availability of food and the ability of vulnerable groups to buy food. Interventions might include cash transfer programs, self-targeted public works or feeding programs, provision of subsidized food to poor households, and so forth. The Bank could also provide emergency financing for food imports. These interventions could be financed through development policy operations, rapid response investment lending, or a combination of the two.
- (ii) ***Lowering domestic food prices in the short term.*** This includes financing the revenue losses to the budget associated with lowering or removing import tariffs, removal of government monopolies over the import or procurement of grains, and so forth.
- (iii) ***Stabilizing highly volatile food prices*** and assisting governments to make better use of risk management instruments in dealing with food price unpredictability. The Bank would also provide financing and risk management tools and technical assistance with risk mitigation and commodity market hedging products.⁸
- (iv) ***Enhancing the consistency between emergency price policy measures and longer term measures required for lasting solutions.*** This includes funding for rapid assessments,

⁷ The size of the trust fund will be discussed by the President and Executive Directors at an informal meeting on May 23, 2008.

⁸ This would include financing products, including commodity-linked loans for IBRD clients, as well as non-lending fee-based services such as intermediation in the market for commodity derivatives and intermediation in the market for weather derivatives (currently under preparation).

improved communications strategies and removing policy distortions related to food pricing.

- (v) **Enhancing long-term food security** by helping ensure that short-term supply responses are consistent with and can transition to sustainable medium and longer-term responses to the changing world food situation. Thus, by way of example, the GFRP might finance the immediate import and distribution of seeds and fertilizer. It would also prepare the groundwork for longer term funding of technology dissemination and extension programs, investment in irrigation rehabilitation and improved logistics (e.g., storage, handling, transport, other infrastructure).

74. **Funding sources.** Under the GFRP, funds are available from the following sources.

- (i) **IDA/IBRD.** Client countries can access IDA/IBRD support within existing envelopes through investment lending and development policy operations by (a) restructuring existing operations with or without additional financing; (b) allocation of additional funds to existing operations; or (c) new operations. IDA-eligible countries would have the option of front-loading 30% of their allocations in the first two years of IDA 15. Debt sustainability considerations would determine the share of countries' IDA allocations made available as grants.

- (ii) **Trust Funds.** The GFRP will include a new single-donor trust fund (the Food Price Crisis Response (FPCR) trust fund), funded from IBRD surplus. The TF will provide assistance in the form of grants to the poorest and most vulnerable countries, and its operation is described in more detail in the accompanying *Memorandum to the Executive Directors on the Establishment of the Food Price Crisis Response (FPCR) Trust Fund and the Proposed Transfer of IBRD Surplus to the FPCR Trust Fund*. At the same time, it is intended to create a multidonor trust fund under the GFRP that will be available in the event other donors decide to support the GFRP effort.

- (iii) **IDA Funds for Regional Operations.** Specific aspects of the food crisis may be best addressed through regional operations which would be eligible for IDA financing under the IDA regional projects program. Regional operations are described in more detail in paragraph 86.

75. **Policy Framework.** With regard to the financing of food expenditures, the relevant policy framework is set forth in OP 6.00, *Bank Financing*, which includes guidelines in relation to the financing of food expenditures. In addition, OP 8.00, *Rapid Response to Crises and Emergencies*, provides the policy framework for rapid response operations and enables the Bank to provide a rapid response in support of, inter alia, the following objective: “establishing and/or preserving human, institutional, and/or social capital, including economic reintegration of vulnerable groups.” OP 8.00 further provides that: “In support of this objective, emergency operations may include activities forming part of the government’s transitional social safety net programs, including cash payments, grant or micro-credit programs, and reintegration packages.”⁹

76. **Financing modalities.** Under the GFRP, Bank financial support for crisis response will include two modalities to ensure timely and customized delivery of assistance. Annex 1 provides a brief overview of instruments and processing requirements.

- (i) **Investment lending** is provided under the umbrella of a horizontal adaptable program loan (APL). While it is anticipated that initially many operations under the APL would be processed under

⁹ OP 8.00, footnote 4. It should be noted that when OP 8.00 was under consideration, at the request of EDs, the General Counsel issued a legal opinion (“Legal Opinion on Peace-Building, Security and Relief Issues under the Bank’s Policy Framework for Rapid Response to Crises and Emergencies”) which addressed, inter alia, the issue of financing of activities that would traditionally be considered relief activities.

OP/BP 8.00, *Rapid Response to Crises and Emergencies*, circumstances permitting, later operations that address medium-term constraints could be processed under OP/BP 10.00, *Investment Lending*.

- (ii) **Development policy lending** operations are processed under OP/BP 8.60, *Development Policy Lending*. Existing considerations for access to DPOs and deferred drawdown options (DDOs) for countries at risk will apply.¹⁰

For IBRD countries, the financial structure of the loan can be customized to the needs of the client and can help reduce risks arising from policy responses. For example, commodity swaps, can be used to link IBRD debt service payments to the spot price of a particular commodity or commodities in order to reduce the price risk of food subsidy provision.¹¹

77. **Technical assistance.** Technical assistance (TA) may be financed through IBRD/IDA operations or through grants from the FPCR TF. Stand-alone TA may also be provided against re-imburement or, in some cases, financed from the Bank's budget, as part of the Bank's non-lending services.

78. **Termination.** The GFRP would include projects and programs that are prepared and approved during the three year period FY09-FY11, so it would not replace longer term lending for basic infrastructure, R&D, etc. The Program would be initially capped at US\$ 1.2 billion. Since it is an umbrella framework for supporting multiple projects and programs, Management will review the Program every six months and recommend any changes to the Board at that time.

Bank Instruments

(i) Development Policy Operations (IDA/IBRD or Trust Fund Financed)

79. New DPOs, including DPOs with a deferred drawdown option (DDO), and supplemental financing for existing DPOs can be provided when crisis response would divert resources from planned or ongoing reform or development programs and thus put them at risk. Since funds can be made available quickly, development policy support is well-suited to financing short-term needs. These include the fiscal and/or balance of payments costs of short-term interventions like emergency imports of food or agricultural inputs, subsidized food and cash through social safety net programs, the revenue loss from lowering import tariffs or eliminating export tariffs, etc. New DPOs can provide support for programs of policy reform including establishment and fine-tuning of social protection and risk management programs and putting in place the policy preconditions for a robust supply response over the longer term. Additionally, as a significant rise in the price of food could constitute a significant shock for country economies, IBRD at-risk countries would have the option of deferring the disbursement of a DPO for up to three years in order to ensure access to long-term resources required to maintain ongoing development programs, if a financing need arises.

80. **Supplemental financing** may be provided under OP/BP 8.60 for a development policy operation for which an unanticipated gap in financing jeopardizes a reform program that is otherwise proceeding on schedule and in compliance with the agreed policy agenda. While supplemental financing constitutes a separate financing additional to the financing provided for in the original Loan Agreement, it supports the objectives of the program already under implementation. Each DPO, including the provision of

¹⁰ The DDO option is only available to IBRD borrowers.

¹¹ The Guidelines for Using IBRD Risk Management Products outline the procedures on requesting, accepting and executing free-standing hedges between the IBRD and a borrower in connection with an IBRD loan made to the borrower under a loan agreement, within the framework of a Master Derivatives Agreement (MDA).

supplemental financing to existing DPOs, would be approved following expedited procedures as proposed in paragraph 86.

(ii) Investment Operations (IDA/IBRD or Trust Fund Financed)

81. Investment lending by the Bank is well suited for projects that will strengthen countries' food security over time by enhancing long-term food availability through improvements in agricultural productivity and the functioning of markets; lowering costs of production by investment in infrastructure, information and technology; by establishing sustainable safety nets; and, by developing appropriate risk mitigation strategies, among other possible interventions. Technical assistance for these purposes may be provided as a bundled product along with a project or be financed through a stand-alone investment loan/credit.

82. **Horizontal Adaptable Program Loan.** Under the GFRP, investment lending would be provided through a horizontal multi-country adaptable program loan (APL). Countries would obtain separate loans/credits or grants (as they become available) to finance projects addressing their specific needs, consistent with the GFRP's objectives. Specific projects in each country would constitute successive "phases" of the APL.¹² The benefit of the APL modality for operations under the GFRP would be faster processing, particularly for subsequent operations, since approval of these operations would be delegated to Management. All relevant Bank policies and procedures would apply to each APL phase.

83. **Processing options.** New freestanding investment operations under the APL would be processed under OP/BP 8.00, *Rapid Response to Crises and Emergencies* or under OP/BP 10.00, *Investment Lending: Identification to Board*, depending on the focus of the specific operation.¹³ It is likely that the earliest operations under the GFRP would be oriented towards immediate response to the crisis and thus fall under OP/BP 8.00, *Rapid Response to Crises and Emergencies*, which governs the Bank's response to address major adverse economic and/or social impacts resulting from an actual or imminent natural or man-made crisis or disaster. However, it is left up to the discretion of the Task Team to use processing procedures under OP/BP8.00 or OP/BP10.00 depending on country-specific circumstances.

84. **Restructuring, Reallocation and Additional Financing.** Restructuring operations in the existing portfolio and reallocating undisbursed loan/credit/grant amounts to activities under the GFRP provides an option for expeditious response to crisis situations and is particularly relevant for the implementation of social protection measures.¹⁴ Another option is the cancellation of undisbursed funds and their allocation to a new project/program that responds to crisis or emergency needs.¹⁵ Additional funds can be provided to scale up an operation that already includes activities under the GFRP and can also be provided to the restructured operation under OP/BP 13.20, *Additional Financing for Investment Lending*.

¹² Similar approaches funded by the Bank include the Multi-Country HIV/AIDS Programs for the African and the Caribbean Regions approved in 2000 and 2001, respectively, the Energy Community of South East Europe APL, approved in 2004, and the Global Program for Avian Influenza Control and Human Pandemic Preparedness and Response, approved in 2006.

¹³ Emergency operations under OP/BP 8.00, *Rapid Response to Crises and Emergencies*, are processed under accelerated, consolidated, and simplified procedures and are subject to streamlined ex-ante requirements (including in fiduciary and safeguards areas). Up to 40 percent of the loan amount may provide retroactive financing for payments made by the borrower during the previous year and the operation may include a quick-disbursing component to finance specified goods.

¹⁴ See OP/BP 13.05, *Project Supervision*, and Guidance to Staff on Project Restructuring.

¹⁵ For IDA-eligible countries, cancelled IDA funds will not revert to the general pool of IDA resources for redistribution, but will be made available for recommitment back to the country without being deducted from its IDA allocation. All proposals for cancellation and reallocation would need approval of FRM and OPCCS.

85. **Regional Operations (IDA funded).** Specific aspects of the food crisis may be best addressed through regional operations which would be eligible for IDA financing under the IDA regional projects program subject to the criteria for regional programs set out by the IDA deputies.^{16,17} The Africa Region could make available up to US\$300 million from its IDA funds under the IDA15 provision for regional projects to finance eligible regional operations that address the food crisis within the GFRP framework. Countries that participate in such regional operations would be able to leverage their IDA country envelopes, with two thirds of the financing coming from AFR's funding allocation for regional projects and one-third from their own IDA15 country allocations. Other regions may propose similar programs using their regional IDA allocations. Eligibility for regional financing will be assessed on a case by case basis. Eligible regional projects could be processed under OP/BP 8.00, *Rapid Response to Crises and Emergencies* or under OP/BP 10.00, *Investment Lending*, depending on the focus of the specific operation, and as with all regional projects, would require FRM clearance prior to negotiations. Similar to other operations under the Framework, they will follow the expedited approval process outlined in paragraph 86.

86. Management is asking for Board approval to expedite the processing of operations under the GFRP, whether financed from IBRD/IDA resources or from the FPCR TF. Investment lending operations under the GFRP would follow current practice for APLs. That is, after Board approval of the first two investment operations, approval would be delegated to Management. Management approval would be 'in-principle' and project documents would be circulated to the Board for information, with approval becoming effective 5 working days thereafter. Per APL guidelines, projects would be presented for Board discussion if at least three Executive Directors so request. It is proposed that approval of new development policy operations (DPOs) and all supplemental DPOs presented under the GFRP, would, similarly, be delegated to Management, whether financed from IBRD/IDA resources or as grants from the FPCR TF. The process for DPOs would mimic that followed for investment operations, i.e., circulation of associated documents to the Board for information for 5 days prior to approval becoming effective and Board discussion being scheduled if at least three Executive Directors request it during the 5 day circulation period.

3. Program development objectives

87. The objectives of the Global Program are to: (i) reduce the negative impact of high and volatile food prices on the lives of the poor in a timely manner, (ii) support governments in the design of sustainable policies that mitigate the adverse impacts of high and more volatile food prices on poverty, (iii) support broad-based growth in productivity and market participation in agriculture to ensure an adequate supply response as part of a sustained improvement in food supply. To achieve this, four areas will be considered for support as set out in paragraph 92.

¹⁶ Regional action may be a rational response to the food crisis because (a) African countries are small and their food economies are interlinked through transport and trade; the appropriate response to food insecurity is therefore to enhance production regionally and facilitate flows; (b) a set of coordinated actions on food security, and other collaborative actions for example on trade, and fertilizers and inputs may be more cost effective than tackling food security at the national level.

¹⁷ Among the eligibility criteria for regional projects is the need to involve three or more countries, all of which need to participate for the project's objectives to be achievable (i.e. the project would not make sense without the participation of all countries); and the need for regional projects to generate significant positive externalities or mitigate negative ones. Projects are assessed on a case by case to determine whether they meet the eligibility criteria.

4. Program components

89. Action is urgently required on short, medium and long-term measures to deal with high and volatile staple food prices. Under the GFRP, short-term responses are defined as having a time horizon of 3-6 months, medium-term responses have a time frame of 6-12 months, and “long term” responses extend from 1-3 years. Most importantly, short-term measures to stabilize food prices must strike an appropriate balance with medium-term measures, such as those intended to improve the domestic supply response. Immediate action is needed to address hunger and the risk of malnutrition among vulnerable groups. Just as fundamentally however, short-term measures should be implemented carefully in order to avoid more serious problems. For example, an export ban may prevent domestic food prices from rising as fast as they would otherwise, but they also introduce market distortions that can have quite negative effects in the medium run. Producers are discouraged and plant less in view of higher input costs and stagnant output prices, potentially turning a grain exporter into a grain importer, for example.

90. In responding to changed circumstances for sensitive items like food supply, even interventions that only pay-off in a few years from now need to start as soon as possible. In particular, countries need to begin building stronger institutions and infrastructure for coping with food price volatility. Consistency of interventions is important. For instance, it would not make sense to encourage an accelerated supply response next planting season while reducing incentives and producer confidences in the present season. Work on both the short- and longer-term fronts needs to proceed in parallel, but coordinated fashion. Short-term responses would need to be consistent with and contribute to providing the groundwork for longer-term interventions. Joint priority setting is essential.

91. Urgent programs to provide producer support, as in the subsidization and/or delivery of inputs before the end of the current planting season, can be done in ways that either foster greater input use once subsidies cease or foster a fall in output once government funds run out. To promote the former rather than the latter, it will be essential that the use of tools such as input subsidies build on established good practice. In the case of fertilizers in Africa, for example, this means attention to targeting to the poor with a voucher system, keeping rigorous track of costs and reassessing the program periodically in the context of alternate uses of funds to promote the same objective, and have a clear exit strategy to implement once monitorable triggers indicate that the need for subsidies is no longer there.

92. The GFRP program would finance a mix of technical assistance, development policy and investment lending under four components that need to all occur simultaneously, but where the payoff will occur progressively further down the road: (i) food price policy and market stabilization, (ii) social protection actions to ensure food access and minimize the nutritional impact of the crisis on the poor and vulnerable, (iii) enhancing domestic food production and marketing response, and (iv) implementation support, communications and monitoring and evaluation. Even though the activities are organized by sectoral components, the program calls for, and will strongly endorse integrated national responses that ensure common objectives across sectors. Regional projects in Africa and other regions will also be financed by leveraging regional IDA allocations. Regional initiatives might include collaborative actions on common regional issues such as trade, fertilizers and inputs. Since experience in dealing with the short-run price spikes under new world market conditions is evolving, and the countries affected are diverse, these components provide a comprehensive menu of likely activities to be financed. Countries can select interventions that are relevant to their individual situations from the menu of those available in the Program. Specific country programs should integrate their own design components with these activities, relying on country knowledge and emerging technical updates and design issues.

93. This section gives, in summary form, key elements that might be considered for funding, with further elaboration of program components in Annex 5.

I. FOOD PRICE POLICY AND MARKET STABILIZATION

94. This program component would support technical assistance to governments on national-level strategies for the immediate short-run responses to high and volatile food prices and their relationship to more medium and longer-term approaches. It would also finance implementation of food market stabilization through development policy operations, and investment lending for institutional capacity-building to help countries better manage the reality of volatile international grain markets.

A. Food Price Policy: Crisis Options, Transition, and Longer Term Approaches

95. In responding to the food price crisis, governments need coherent national-level strategies, policies and risk management instruments. This component will finance technical assistance to governments who wish further evaluation of alternative responses. It would also provide technical assistance to governments for the transition from crisis responses to more medium- and longer-term approaches.

96. In general, the international experience with price stabilization and food security in developing countries suggests that the optimal strategies are likely to involve market-based instruments for price stabilization combined with targeted safety nets. Such approaches would avoid the efficiency losses widely observed with regard to government management of buffer stocks and governments playing a commercial role in international trade and food distribution. A preferred approach that tends to minimize leakages, efficiency losses, and helps maintain incentives for mobilization of the private sector would be the use of market-based instruments such as procurement by tender, open market sales, trade finance solutions, and risk management instruments such as insurance and price hedging to influence prices and trade, manage strategic grain reserves, and access the contingent financing needed to respond to shocks.

97. Nonetheless, in the current context of very high international prices, without some government intervention, poor net consumers of food may suffer severe reductions in household purchasing power, consumption and nutrition and in some cases political stability may be seriously threatened. In certain cases, therefore, well-designed short-term government interventions may be the best option for rapidly addressing the effects of high international food prices on the poor.

98. The food price policy and market stabilization component will finance the following three activities:

A1. Rapid assessment and analytical support to provide a rapid diagnostic of current market conditions, impacts of the crisis on different social groups, and policy options. Specifically, these rapid assessments will be used to: i) evaluate the current market situation, ii) analyze the main causes of market price increases (including changes in international prices, domestic production shortfalls and internal market disruptions); iii) assess the impacts of the crisis on different social groups and use participatory appraisal methods to consult vulnerable groups on their priorities for public assistance and response; iv) assess short-run policy options; v) examine possible medium-term strategies for transition from short-run policy interventions; and vi) outline the process of developing long-term measures, such as increasing domestic production and promoting market development.

A2. Design of national food policies that provide for a **transition** from short-term emergency measures to policies consistent with a long-run growth and poverty reduction strategy. This analysis would be tailored to the country context and would include clear specification of instruments and objectives, and investigate options for market-based and direct interventions

(including public stocks, open market sales and targeted food subsidies) in the context of an overall social protection and growth strategy.

A3. Information, consultation and participatory advisory services. Effective information sharing and communications tools are critical in a crisis situation to provide countries with the space to pursue responses which effectively target the most vulnerable, and do not undermine the broader development process. There is a risk that participation may remain as a one-way information flow. To avoid this, it is important to offer channels for voice and public deliberation on the crisis – and appropriate responses. Finally, when measures are put in place to help vulnerable social groups, communication of what assistance is available, and what poor people’s entitlements are to is important to enable people to mobilize to make claims for assistance. Under this component, information and communication activities will be geared toward i) informing constituents about the nature and contributing factors to the crisis and managing expectations around food prices and the efforts governments are making to resolve the crisis; ii) assisting public bodies in carrying out rapid exercises in consultation about appropriate responses; and (iii) making information available to citizens on their entitlements to assistance and information.

B. Support for Food Market Stabilization

99. Policies enacted to stabilize food prices or offset the effects of high food prices may involve additional fiscal costs (e.g. subsidized sales of imported food to lower domestic prices below import parity levels) or loss of fiscal revenues (e.g. lowering of import tariffs). In low income countries, the additional fiscal strain of these policies could seriously threaten public investments and public services needed to promote growth and poverty reduction in the medium term. To avoid major fiscal deficits that could threaten macro-stability or cuts in public expenditures that could threaten development, governments may request funding under this facility to finance short-term price stabilization programs (including market intervention policies such as open-market sales of stocks or imports). They may also request financing for programs related to introduction or expansion of food subsidies or cash transfer systems that are consistent with an overall strategy that minimizes market distortions and provides major benefits to poor households. Price volatility risk, which could increase the burden of price stabilization programs over time, can be reduced by using appropriate risk management products in the framework of the World Bank hedging product offerings. IBRD countries can choose to link debt service payments to a traded commodity price or price index. This financial option could be used to hedge the price of agricultural products as well as of “input commodities” such as chemicals used in the production of fertilizers.

100. It is anticipated that many of the requests under this sub-component would be for budget support, recognizing that budget support for policy measures will in most cases amount to only a small part of the fiscal gap attributable to rapidly rising food prices. Governments would also be able to request investment lending under this sub-component to build capacity to deal with the new demands of increasingly volatile staple food markets. This would include items such as additional personnel costs, office facilities, training, hardware, software, data access, and management systems for accomplishing the policy, information, and management tasks below. This sub-component would provide support to help finance the following market-level interventions:

B1. Tax and Trade Policies. Fiscal costs of removing or reducing tariffs on certain types of food, lifting export bans for food grains, reducing VAT rates or providing VAT exemptions on food will be eligible for financing under this sub-component. Removal of or a reduction in tariffs and tax rates on food can help reduce domestic market prices, but may result in significant loss of revenues. Likewise, lifting of an export ban could result in higher domestic prices that raise the cost of implementing food subsidy programs. Proposals to lower tariffs on food need to be

considered on a case by case basis in the context of the country's overall trade regime, as in some cases the lowering of a tariff on food in isolation constitutes a tax on domestic food producers relative to production of other items, which is not desirable for sustained supply response. Use of budget support for short-term remedies may not be sustainable over time, and needs to be implemented in a manner that allows rapid transition to other solutions for managing the food price crisis.

B2. Price Subsidies. Under this sub-component budgetary support will be provided to offset the financial costs of food subsidies. Food subsidies via untargeted open market sales, subsidies on imports, ration shop sales and other measures to lower the market price for consumers can entail a substantial fiscal cost. While considering offsetting the fiscal costs of food subsidies it is important to assess if these costs can be reduced by taking into consideration: i) the type of food commodity to be subsidized, ii) putting in place mechanisms to reduce leakages, and iii) having explicit exit strategies.

B3. Grain Stock Management. In light of the recent increases in international cereal prices and in some cases, difficulties countries have experienced in arranging for import contracts, many governments are considering increasing food stocks or starting new grain reserves. This component will support the following activities: (i) analytical work to assess alternative strategies for the size, location, and forms of strategic reserves; (ii) training and investment for the upgrading of storage practices; (iii) feasibility studies and technical assistance to expand collateral-based lending/warehouse receipts; (iv) technical assistance to improve tendering systems and rules associated with stock replacement; and (v) technical assistance and training in the use of trade finance structures to create financial grain reserves.

B4. Price Risk Management. This sub-component will provide support to governments and major private sector entities to identify how market-based hedging products can be incorporated in national policies and commercial strategies. The following activities are included: (i) quantification of specific price risks faced by governments and private sector importers/distributors; (ii) assessment of the technical, operational, and commercial feasibility of mitigating price risks through transfer to the market, using financial and physical contracts; (iii) technical assistance in hedging product design; (iv) training for governments and the private sector in the use of price hedging and in the evaluation of costs/benefits of different products and strategies; (v) intermediation services for price hedging transactions between client parties and the international market; and (v) partial financing of premiums on option contracts to cap the cost of future food imports.

B5. Early Warning and Weather Risk Management for Food Crop Production. This sub-component would strengthen the capacity and policy utilization of national early warning and crop forecasting/estimation systems and support governments to transfer the risk of severe weather-related food production shocks to the international insurance/derivative markets. The following activities are included: i) investment in automatic weather station infrastructure and data reporting systems; (ii) capacity building in agro-meteorology, crop surveillance, and crop estimation systems; (iii) assessment of the technical, operational, and commercial feasibility of applying weather-indexed insurance or derivative products as part of disaster risk management strategies; (iv) technical assistance in insurance product design, (v) intermediation services for weather risk management transactions between client governments and the international market; (vi) partial financing of premiums on weather insurance/derivative transactions and (vii) technical support to help governments develop plans for utilizing funds that accrue from insurance payouts, for example, in designing safety net programs that scale up on the basis of payments.

B6. Promotion of bilateral or regional trade. This sub-component will finance technical assistance and investments for regional trade and transport facilitation. It could also finance activities that would accelerate on-going trade facilitation actions that would specifically improve the functioning of regional staple food and input markets. Assessments of technical, policy, logistical and other constraints to regional and cross-border trade in staple foods and agricultural inputs will be supported.

II. SOCIAL PROTECION ACTIONS TO ENSURE FOOD ACCESS AND MINIMIZE THE NUTRITIONAL IMPACT OF THE CRISIS ON THE POOR AND VULNERABLE

101. This component of the GFRP will support social protection responses to ensure food access and minimize the nutritional impact of the crisis. Social safety nets provide the best short-term option for offsetting the effect of food price increases, quickly and with minimum negative impacts on economic incentives. The programs to be supported are those which transfer additional resources to the most vulnerable households and population groups, to allow them to maintain their consumption in the short run, and give them time to adjust their consumption baskets and pattern of work or productive activities in the medium term, in response to changed relative prices. In developing such responses the Bank will work closely with WFP to establish an appropriate division of labor. In general, it is expected that WFP will lead on the emergency delivery of food to the worst hit countries while the Bank will normally provide assistance through transfer programs, workfare and health and nutrition programs in country.

102. In general, targeted programs will be preferred to untargeted programs (because the need for protection is a function of vulnerability); and programs which transfer resources directly to households – especially, cash – will be preferred to those which alter market prices, and might therefore distort incentives and lead to sub-optimal outcomes. Appropriate programs include those which offset the income effect of the shock directly through cash or in-kind transfers; and also those which seek to mitigate its consequences on human development outcomes (such as the nutrition, health and education status of children). Such effects might be generated through reduced complementary feeding of children under 24 months of age; through reduced take-up of health services due to income losses; and due to withdrawal of children from school and increased child labor.

103. This GFRP component will include three levels of support to social protection reactions to the crisis: (a) *Rapid response diagnostics* to identify the worst affected households; to identify the existing programs which might be used to deliver support; and provide policy advice to governments on the best way to respond and the pitfalls to avoid; (b) *Financing of short-term support to the most vulnerable populations* through cash transfers, food stamps, in kind transfers, school feeding, workfare and programs to minimize negative nutrition and health effects of the crisis; and (c) *Medium-term capacity building investment to strengthen social protection systems* and equip them better to respond to such crises in the future.

A. Rapid-response diagnostics.

104. The first step is to carry out a rapid diagnostic to identify the most affected populations and the existing programs which are best-able to deliver compensatory transfers in an efficient and transparent manner, or to otherwise offset negative human development effects from the crisis. This will provide the basis for the design of sub-component II B (the financing of short-term support to the most vulnerable populations).

105. Available household and administrative data should be used to identify the groups most likely to be affected by the increase in food prices (such as net consumers of food in the bottom quintile of the

income distribution, especially households with children who may suffer negative human capital consequences). The design, scope and quality of existing programs should be evaluated to determine which of them are best-placed to channel additional resources to provide a temporary cushion to the most affected households. Where possible, this analysis should use household-level data on program access, targeting and benefit incidence. The Bank will make available rapid diagnostic tools to expedite this analysis. Where data are not available for this analysis, programs whose design reflects best practice will be preferred.

106. The rapid diagnostic should also identify strengths and weaknesses in the existing social protection system. This should be based on a rapid desk review of existing documentation, including any available evaluation reports. The review should identify gaps in the system and should also identify inefficient subsidies which have not proved useful in helping to offset the impact of the food price crisis, due to poor targeting, such as subsidies linked to fuel and energy. The fiscal cost of existing programs should be reviewed. The result should be a recommended strategy for medium-term development of the social protection system, including the possible development of new programs, to be supported by the capacity-building sub-component, II C.

B. Financing of short-term support to the most vulnerable populations

107. The GFRP will finance social protection, nutrition and health programs for the poor, as an emergency response to rising food prices. The supported programs should aim to sustain families' ability to afford an adequate quantity and quality of food, while also seeking to maintain effective access to nutrition, health and education services for their children (which might otherwise be reduced due to the negative real income effect of the price rises).

108. The most appropriate program mix will vary from country to country, taking account of individual country needs and priorities, and the options available within existing social protection and nutrition systems. The preferred option is to fund a quick scale-up of the best existing programs (eg. by increasing transfer amounts to offset the increased cost of food and funding the incorporation of additional beneficiaries). Programs will be chosen for scaling up based on considerations of equity, cost-effectiveness, incentive compatibility and sustainability. Further discussion of the ordering of preference and standards for good performance in such programs is provided in Annex 5.

109. Unfortunately, many of the poorest countries, which are most vulnerable in the face of the food crisis, have few good existing programs for channeling an adequate social protection response. Where available programs are sub-optimal (for example, entailing significant leakage of subsidy to non poor groups) the GFRP will channel support through the best-available options, but will also support medium-term strategies to phase out inefficient or incentive-distorting subsidies and to develop more efficient and transparent alternatives (see II C).

B1. Transfer Programs

110. *Cash Transfers*. Direct transfers in cash or in kind, are the simplest and most straightforward way to get additional resources to the most vulnerable households to mitigate the effects of a food crisis. *Targeted Cash Transfers* (TCTs) are preferable to in-kind transfers, as they avoid incurring the costs of food transport and distribution. They often target households with children, elderly or disabled individuals. These programs have relatively low administrative costs and do not distort prices. Benefits can be differentiated by level of need, household size or composition. Similarly, existing *Conditional Cash Transfer Programs* (CCTs) (which link the benefit to requirements such as school attendance or health service take-up) are an option for channeling support rapidly – but the complexity of such programs means it will not normally be feasible to establish new ones as vehicles for an emergency

response. CCTs are particularly relevant in Middle Income Countries with large disparities in income distribution (such as LAC), where it is very important to channel the response to the poorest households to avoid unsustainable fiscal impacts. Like TCTs, they are normally well-targeted on the most vulnerable populations and have efficient and transparent administrations. They can also help discourage negative human capital impacts such as withdrawing children from nutrition, health and education programs. When existing cash transfer programs are used to respond to the food price crisis it will be important to differentiate the temporary additional benefit from the core benefit distributed by the program and, for conditional programs, it may be necessary to relax conditionality in areas with poor supply of education and health programs. It might also make sense to channel the additional temporary benefits to a sub-set of the existing beneficiaries, if the impact of the crisis is uneven across different population groups covered by the program.

111. **Food stamps.** Food stamps are an intermediate step between cash transfers and food distribution. GFRP may support the subsidy value of food stamps and the associated logistics (e.g. printing physical food stamps or supplying smart cards). It will fund the analysis of needs and targeting criteria; program monitoring; the development of necessary infrastructure; and financing for new programs/scaling up existing food stamp and food ration programs, including means for stamp redemption and for smart cards to reduce leakage.

112. **Food rations.** The direct delivery of food to affected households may sometimes be the most effective way to deliver short-term assistance. As noted above (paragraph 101), the delivery of emergency food rations to countries under stress is expected to be led by WFP. But GFRP will support the subsidy element of targeted food rations purchased locally, where the targeting is based on poverty or on nutritional risk. Rations may be distributed via private sector food shops, public ‘fair price’ food shops, via maternal-child health programs, or schools.

B2. School feeding

113. School feeding programs exist in 71 of the 108 low / low middle income countries, often covering a large proportion of the geographical area and population, especially in rural areas. In countries where no large cash transfer system is in place, they may offer the best option for delivering additional resources quickly and on a large scale, to offset the impact on household budgets of the food crisis. Like CCTs, they have the additional benefit that they act as an incentive to send children to school and thus, they lower the probability that children will be taken out of school in response to the negative income effect of food price rises (eg. to send them to work). As well as food consumed at school, take-home rations could be distributed for consumption by younger siblings. Geographical targeting could be used to focus on the poorest areas of the country. GFRP may finance school feeding program costs including: food, storage transport, program staff, complementary inputs such as fuel or power, micro-nutrient supplements and fortificants and de-worming treatments delivered in conjunction with the school feeding program. Additionally, the GFRP will support targeting assessment to help channel the additional funds to the most vulnerable.

B3. Public Works

114. Labor intensive public works programs are an option to generate incomes in targeted communities while also delivering services, rehabilitation or construction of infrastructure. These programs are particularly useful in the absence of good household targeting systems as they self-select unemployed beneficiaries by requiring them to work. So long as wages are set below market levels they are not likely to displace people from existing jobs. However it is important to limit the time on the program and avoid any sense of entitlement. The GFRP will finance the establishment of new programs and the expansion of existing programs, including labor costs (including cost of living adjustments to

offset food price rises) and the non-wage costs for materials, tools, skilled labor and program administration).

B4. Nutrition and health programs

115. The most important immediate human development risk from the food price crisis is the possibility of negative nutrition impacts among small children (aged under 24 months) and pregnant and lactating women, who are most susceptible to chronic malnutrition or who are already suffering malnutrition and ill health. The Bank has recently highlighted chronic malnutrition as a central development challenge and many countries affected by the food price crisis already have chronic malnutrition above 30% among children under five.¹⁸ The biggest danger is that, faced by higher food prices, families will cut back on complementary feeding in the 6 months to 24 months age range, which is the critical window when most children become stunted.

116. To mitigate this risk, GFRP will provide short-term support to strengthen the coverage and delivery of existing nutrition and primary health programs. Priority areas for support will include (a) Nutrition education and growth promotion to improve nutritional practices by changing behaviors with respect to breastfeeding and complementary infant feeding, dietary quality, hygiene, and child care. (b) Provision of targeted food supplements and micronutrients, including (i) food supplements for vulnerable pregnant and lactating women and children under 2 years, for recuperation of severely malnourished children, and for HIV/AIDS patients under treatment with antiretroviral drugs, (ii) micronutrients such as iron and folic acid supplements, Vitamin A, and interventions to address iodine and zinc deficiencies for high-risk population, (c) Other primary health interventions which reduce the risk of malnutrition (such as immunizations, oral re-hydration therapies and protection against malaria) could also be supported

C. Strengthening Social Protection Systems.

117. The food price crisis is an opportunity to work with governments to identify weaknesses in their Social Protection systems and implement reforms which will strengthen the systems and better-equip them to respond to the next crisis. The Rapid Appraisal of social protection response capacity (component II A) will include the preparation of recommendations for ways to cover gaps in the system and establish programs that can quickly deliver support in a transparent fashion to the most vulnerable households. It will also identify programs and subsidies with significant fiscal cost that need to be re-designed to make them more effective social protection instruments; and badly targeted or inefficient subsidies that might be scaled down or ended to make room for better programs.

118. On the basis of these recommendations, GRFP will finance capacity building and related investments needed to develop new programs and to improve program effectiveness of existing programs. This may include activities to (a) recommend and implement appropriate developments of the social protection system to provide a basis for more effective mitigation to future crises; (b) improve the capacity of existing transfer programs in selection of beneficiaries (targeting and needs analysis); beneficiary registers; payment systems for cash transfer programs and delivery systems for in-kind programs; procurement systems; program governance; oversight mechanisms aimed to reduce the amount of funds lost to error, fraud or corruption; Management Information Systems (MIS), monitoring and evaluation; communication campaigns; (c) strengthen linkages between the transfer programs and the health and education sectors, for example, ways to verify compliance with conditionality; (d) to strengthen communication on health and nutrition and (e) the monitoring and evaluation of social protection, health and nutrition programs.

¹⁸World Bank. 2006. *Repositioning Nutrition as Central to Development*. Washington, DC: World Bank.

III. ENHANCING DOMESTIC FOOD PRODUCTION AND MARKETING RESPONSE

119. In parallel with improved policies and safety nets, reducing food price vulnerability at the global, regional, national and local community levels requires improved productivity to increase aggregate food supply and to manage future risks. The rationale to include an accelerated domestic food production and marketing response as part of the overall emergency Program is based on the following considerations: First, in view of the existing low levels of global food grain stocks, food availability once again becomes an issue in addition to food distribution, which has been the primary concern for over twenty years. Global food grain consumption has exceeded global food grain production for each of the past six years. Consequently, increased supply—in a broad range of countries—needs to be a necessary element of the emergency response. Second, the very significant rise in fertilizer prices, surpassing increases in food grain prices by a factor of two, together with continued increases in fuel costs, has the potential to weaken farmer incentives to expand food output, despite the sharp increase in staple food prices.

120. Third, the low level of global food stocks substantially increases the potential adverse consequences from national supply shortfalls, perhaps as a result of adverse weather events, for the forthcoming two or three cropping cycles. Consequently, the pay-off from an accelerated supply response can be high — for meeting domestic demand and, in some cases, for also servicing regional demand. At the same time, measures can be taken to reduce farmer and supply chain vulnerability to weather-related supply shocks. These considerations are especially pertinent for Africa where the vast majority of food grains are grown under rain-fed conditions. Fourth, recent measures by grain surplus countries to restrict or ban food exports have painfully exposed deficit countries to the risks and difficulties of relying heavily upon international grain markets to meet their needs, on a timely basis. Rising oil prices have also tacked on additional costs to food imports.

121. While the policy objective in the face of these immediate problems should not be one of national food self-sufficiency, part of the emergency response should involve measures to improve domestic agricultural productivity and supply chain efficiency, in a sustainable manner, and take advantage of the prevailing price incentives to promote an immediate supply response. For these purposes, the Program will support measures geared toward: (i) strengthening agricultural production responses; (ii) reducing post-harvest and marketing losses; and (iii) strengthening access to finance and risk management. Implementation of technical assistance and investments under these subcomponents will enable client countries to achieve notable progress, both in the very short-term and within the span of 2 to 3 years — a period in which world food prices are expected to exhibit high volatility and remain well above that the levels that prevailed in the early to mid-2000s. Although most of the demand for support measures to increase domestic production and marketing efficiency is expected to come from traditionally food deficit countries, the Program could also potentially support other countries, provided that the trade policies of these countries facilitate an expansion of regional and global trade.

A. Strengthening Agricultural Production Systems

A1. Improving smallholder access to seed and fertilizer: This sub-component would provide rapid support to clients facing constraints related to seed and fertilizer availability, distribution, affordability, and utilization, in the context of developing more viable and sustainable input supply systems. This sub-component would provide finance and technical assistance: (i) to reform laws and regulations which inhibit the development of agricultural input markets, (ii) to develop or scale up voucher and supplier credit schemes, based on ‘smart subsidy’ and other principles¹⁹ (see Annex 5, Box 2); (iii) for investments and training to strengthen

¹⁹ For example, these programs should be well targeted to the poor, transparent, fiscally capped, involve participation of the private sector, and be time-bound.

existing systems for seed and fertilizer quality control; (iv) for investments to upgrade/rehabilitate seed multiplication and distribution facilities, and (v) for short-term fertilizer imports through revolving fund or other financially sound mechanisms.

A2. Livestock management for vulnerable households. Under this sub-component, the following interventions would be supported: (i) de-stocking and restocking to compensate for losses, (ii) emergency provision of feeds and fodder, marketing of animals and animal products and immediate relief for the more vulnerable livestock producers, (iii) animal health and disease control programs targeting the most vulnerable, (iv) communication and training activities to mitigate risks and activate an immediate response to protect vulnerable livelihoods, (v) essential infrastructure such as watering points, housing, irrigation, small-scale slaughter facilities, market infrastructure; and (vi) financial services such as credit, insurance schemes and compensation funds to protect livestock investments, and (vii) analytical work for the development of medium-term strategies for the sustainability and management of rangelands and pastures..

A3. Rehabilitation of small-scale irrigation. Water availability is a must for any rapid increases in productivity to take place. This sub-component would: (i) support quick turnaround physical investments in rehabilitation of existing small-scale irrigation schemes; (ii) finance investments in rehabilitation or development of field drainage and collector drains to reduce problems of water-logging and soil salinity (iii) finance training for water user groups and others on operation and maintenance of investments; (iv) finance technical support to carry out assessments of groundwater or surface water hydrology and sustainable water use; and (v) finance feasibility studies for medium-term irrigation investments.

A4. Strengthening farmer access to critical information. This sub-component would finance a variety of activities related to on-farm knowledge and equitable and timely access to information. Eligible activities would include (i) dissemination of site-specific technologies through demonstration plots, on-farm soil testing and input trials, and other means;; (ii) capacity building for existing extension providers and producer organizations; (iii) strengthening market-oriented business advisory services, linking producers to input and product markets; (iv) strengthening systems for providing farmer access to weather forecasts and related recommendations ; and (v) financing ICT applications for agricultural advisory services and farmer communication.

B. Reducing Post-Harvest and Marketing Losses

122. There is significant scope to rapidly increase global and local food supplies simply through reducing losses in drying, milling, transport and storage. Post harvest losses for cereal crops in most developing countries have been conservatively estimated at 10-15% of production, and when combined with quality deterioration on farms, in local storage and in the milling process, can account for upwards of 25% of crop production. This results in reduced income and own subsistence capacity for farmers, financial losses for firms, and reduced (aggregate) availability of food, at community and national levels. This sub-component would support an accelerated uptake of readily available technologies for staple crop drying, storage, treatment, and milling at farm, community and small/medium enterprise levels. Investment of this kind can reduce the marketing margin ‘wedge’ between producers and consumers, increasing the realized prices by the former and reducing the prices paid by the latter.

123. Support will be based on rapid assessments of current post-harvest and supply chain practices and facilities to estimate pertinent losses, and then identify constraints and opportunities for quick improvements. Subsequent assistance could take various forms, including: (i) training and demonstration

of low cost on-farm storage technologies, and investment in small equipment and facilities for village food banks, (ii) rehabilitation of rural roads and bridges where deficiencies in such transport infrastructure are clearly demonstrated to result in product/quality losses; (iii) training and facilitation of investment by grain traders and millers in drying, sorting, and fumigation equipment and upgrades in existing storage facilities; and (iv) training, technical assistance, and supplemental equipment to strengthen existing food grain quality control inspectorate services and food safety surveillance systems. Support could also be provided to strengthen/rehabilitate facilities and equipment for food handling and storage at ports or other entry/exit points, include for cross-border trade.

C. Strengthening Access to Finance and Risk Management Tools.

124. Lack of access to finance, insurance, and other risk management tools for farmers, input suppliers, and market intermediaries poses serious constraints on agricultural productivity, investment and marketing system efficiency. This sub-component will support innovative solutions to help foster a more rapid supply response to the current crisis, reduce the vulnerability of farmers, agro-enterprises, and financial institutions to future production or price shocks, and, in so doing, promote a more sustained increase in farmer uptake of improved technology and local agro-enterprise investment.

125. This sub-component would support: (i) credit lines and capacity-building for formal financial institutions to increase agricultural lending; (ii) the development of legal/regulatory frameworks and provision of credit lines and technical assistance to extend the use of supply chain finance; (iii) the scaling up of community-based financial institutions; (iv) feasibility studies and training to enable farmer organizations, market intermediaries, and financial institutions to utilize selected physical or financial strategies to manage commodity price risks; and (v) feasibility studies, training, and advisory services to facilitate further applications of commercial agricultural (and weather) insurance.

IV. IMPLEMENTATION SUPPORT, COMMUNICATIONS AND MONITORING AND EVALUATION COMPONENT

126. The program would support the strengthening of public structures for the coordination and management of the individual country projects. In the case of investment operations, this includes central and local (decentralized) arrangements for coordination of activities, financial management, procurement, communications, and monitoring and assessment of progress towards results. In the case of new development policy operations and supplemental financing for DPOs there will be up front agreement with the government and other financial partners on a coordinated accountability framework or modifications to an existing framework (policy matrix and monitoring indicators matrix) agreeing on the indicative triggers and expected program outcomes. Improving the quality and effectiveness of policies will require more timely and reliable information for policy analysis and assessing outcomes, and efforts to strengthen monitoring and evaluation will be supported.

A. Project Management

127. This sub-component would support costs associated with project coordination in participating countries. Program implementation arrangements will be adapted to the specific country capacity and program requirements. Initial rapid diagnostics will assess opportunities to work with existing management arrangements based on their logistics performance and quality of their fiduciary control systems, as well as identifying possible alternatives, including specialized project units and contracting with third party implementing agencies such as NGOS, and UN agencies. Fiduciary assessments and agreement on additional strengthening measures such as technical support for procurement and internal

auditing arrangements will be an integral determinant of design of project management arrangements. Monitoring of project management performance will be an explicit part of overall project monitoring with specific indicators such as those in the program results framework. A National Advisory Committee with representation of the key line ministries and relevant stakeholders might provide overall guidance for the GFRP project in-country and monitor its implementation.

128. Specific costs are expected to include training in project management procedures--procurement, financial management, reporting --for government staff and others directly involved in supporting project management at the national and local levels. It is also expected to include technical assistance for national and international consultants to reinforce staff capacities as well as provide short-term technical inputs to program establishment and problem solving. Funding for equipment and improvement of project facilities is also anticipated.

B. Monitoring and Evaluation (M&E)

BI. Training. This sub-component would support training in participatory monitoring and evaluation at all administrative levels, a mid-term evaluation workshop, and development of an action plan for M&E and replication of successful models. It would support the following activities: (i) training in M&E; (ii) developing a M&E plan for the specific country projects; (iii) implementation of baseline studies; (iv) Mid-Term evaluation of the project; (v) regular participatory monitoring and evaluation; and (vi) final project evaluation.

B2. Program Monitoring and Impact Evaluation. Support would be provided to develop project monitoring and impact evaluation assessments. Two types of M&E are envisaged:

(i) Monitoring of project implementation. This would be a function of the Program Coordinating bodies, which would collect relevant data from line ministries and other implementation agencies and then compile them into semi-annual or quarterly progress reports (as the case may be) focusing on status of physical implementation by component, use of project funds and monitoring indicators. Specific surveys would be conducted to obtain data for this purpose. It is envisioned that participatory monitoring and evaluation by communities and program beneficiaries will be an integral part of project monitoring and evaluation.

(ii) Impact evaluation. The aim of evaluation is to assess whether the interventions are effective or the Program is having the desired impact. The evaluation will include both quantitative and qualitative aspects and be conducted on an annual basis. The quantitative aspects will rely on new information systems and surveys implemented as part of the various components of the project, currently existing data sources, and primary evaluative data collection efforts. The goal of the qualitative aspect of the evaluation will be to document perceptions of program managers, staff, beneficiaries, and local and national leaders. Qualitative information will be collected using site-visit interviews, focus groups, and respondent surveys.

C. Information and Communication Services.

129. Under this sub-component support would be provided to assist in the design of communications strategies for the overall program as well as key activities, selection and sub-contracting of services to implement the communication interventions; training of spokespersons from priority sectors in managing the media; partnering with the electronic and print media to highlight the national response and ensure accurate reporting. The subcomponent would also support review of existing organizational and

management structures related to communications and provide for public opinion polling on food related issues, assessment of the sociopolitical risks and the establishment of national communication structures on the issue. It would also support activities designed to improve the effective coordination and collaboration among relevant stakeholders in the response effort including various ministries (e.g. agriculture, health, commerce, finance, transport), NGOs and civil society organizations (including religious and consumer organizations), humanitarian relief agencies, farmer organizations, agricultural service providers, private and other food companies, industry associations, and the media. The subcomponent would also support local and community-level communications strategies to ensure that potential beneficiaries of rapid support are aware of their entitlements to strengthen social accountability mechanisms at community level.

5. Lessons learned and reflected in the program design

130. **Relevant lessons for the design of the proposed operation have been drawn from previous World Bank/IDA and FAO-supported emergency recovery and investment projects**, the recent Global Program for Avian Influenza Control and Human Pandemic Preparedness and Response (GPAI) and from OED. All these experiences and lessons learned have been taken into account in the design of the proposed GFRP. Lessons-learned from numerous previous emergency recovery projects indicate that four areas are especially critical to program success: (1) the speed of the national and international response, (2) the degree of national coordination and pro-activity in responding to the crisis, including with regard to a carefully coordinated communications strategy (3) the level of genuine partnership with other stakeholders, which is importantly influenced by how the World Bank positions itself vis-à-vis partners on the crisis issue, (4) an administrative program design that emphasizes flexibility and simplicity, and (5) a structured approach to determining and diffusing good practice world-wide from targeted analytical work.

131. **Response speed.** The very nature of hunger justifies a rapid response for its own sake. Effective deployment of measures to reach those who need it most cannot wait. However the need for speed goes beyond social protection to avoiding short-run policies that shift the burden of adjustment to neighboring countries, or to the next year when it will be even harder to find solutions. For example, in production systems – particularly for smallholders – speedy, efficient and transparent distribution of suitable key inputs is clearly a major factor in limiting the impact of a crisis and speeding up recovery. In East Timor, IDA supported an agricultural rehabilitation project which involved the restoration of priority assets, including poultry and ruminant livestock following the violence that preceded that country's independence. Against this background, a fast track approach for the preparation and implementation of the GFRP appears to be appropriate.

132. **Pragmatism for immediate responses, balanced with focus on sustainability over the medium term.** In the current environment, governments may face overwhelming socio-political pressures to adopt suboptimal policies. There may be cases where governments are obliged to take immediate and visible actions to maintain social stability; and freedom to allocate resources optimally may also be constrained by limitations on the use of certain donors' funding. In such cases, the Bank can help governments by advising on ways to ensure that such policies are implemented as temporary measures, on design of clear exit strategies, and on transparent and monitorable administrative mechanisms--all in tandem with measures that are more sustainable and targeted over the medium term. Recognition of the socio-political realities facing our clients, and willingness to engage on pragmatic responses in the immediate term (i.e., within days or at most weeks), makes it more likely that the Bank will be welcomed as a partner in moving from short-term policies to stem socio-political unrest toward more sustainable medium- and long-term policies to deal with a new world of higher commodity prices through human

capital development, more effective and better targeted social protection mechanisms, enhanced productivity, and market-based risk management strategies.

133. **Importance of rapid national response planning and coordination, and country-based needs assessments.** During the design of the international support architecture for the avian influenza crisis, the need for national coordination of all technical and financial support was emphasized, given both the widely differing conditions facing individual countries and issues of sovereignty in decision-making and implementation. Country-level needs assessments became the critical stepping stone for the formulation of country-based integrated response programs and (most) international support had to be or become integral parts of this national framework. For the Bank-financed global program, the existence of a national HPAI control strategy and response program – or at least the coordinated plan to develop such a program – was a condition of eligibility. The lesson is also already being applied with respect to the global food crisis: during the above-mentioned meeting under the chairmanship of the UN Secretary-General in April 2008, it was already agreed that at the country level, UN Resident and Humanitarian Coordinators, Heads of the World Bank missions, and the UN country teams will urgently meet with WFP and other humanitarian agencies in affected countries to draw up support strategies for national governments and vulnerable populations and seek international support for their implementation.

134. **Importance of communications.** Public health related programs, such as the swine influenza program, HIV/AIDS multi-country initiatives, or the GPAI, have demonstrated the critical importance of effective communication, between relevant agencies, between governments and international partners, and between state institutions and the general public and among countries. Effective communication needs to be mainstreamed throughout the entire program and each related project.

135. **Plans, programs, projects.** Effective approaches to crisis management recognize the distinction to be made amongst and separate functions of plans, programs, and projects. Avian Influenza contingency *plans* determined a country's response strategy and – together with manuals and guidelines – specified in great detail who would do what in the case of an outbreak. National integrated *programs* were formulated in order to build the country's capacity to implement that plan or – if the plan itself was deficient – to improve the plan and to implement the revised plan. These programs became the national framework into which each *project* (defined by limited technical scope and a specific funding mechanism) would be integrated. This allowed several agencies to bring to the table their own funds and technical preferences and priorities without the need to pool resources.

136. **Importance of global coordination, strategy formulation, and technical leadership by UN agencies.** The design and implementation of the GPAI benefited from strong leadership by the technical lead agencies with global mandates – FAO, OIE, WHO – and from the rapid establishment of a global framework of communication and coordination with the UN in the lead. The establishment of a high-level UN coordination task force on April 29, 2008, led by UN Secretary-General himself, and the nomination of two coordinators, one of which is the Senior UN System Influenza Coordinator who has led the UN's coordination efforts related to the avian and pandemic influenza, mirror and even elevate to higher levels the successful approach chosen for responding to the avian influenza crisis. For avian influenza, as now for the global food crisis, there are international organizations with a global mandate to determine technical guidance and good practice. The World Bank relies on their technical leadership and provides complementary technical, financial and organizational assistance, building strong partnerships with all relevant international organizations in a non-competitive environment and ultimately leading to maximum efficiency in resource use.

137. **International conferences co-hosted by the UN and the WB / MDBs to agree on coordination and financing framework.** One of the major challenges in the response to the AI crisis was to coordinate the number of players willing to contribute both financially and in terms of technical

guidance. International conferences, co-hosted by the UN and the WB/MDBs played a critical role in discussing and agreeing on a financing framework that avoided duplication and helped ensure an efficient use of resources. Pooling of resources was discussed but discarded, and this turned out to be an effective approach, given that the ultimate responsibility for coordination of all technical work and its funding was supposed to be kept (and encouraged) at the local (national) level. The meeting on April 28-29, 2008, of the executive heads of the United Nations specialized agencies, Funds and Programs and Bretton Woods institutions, meeting in Bern on 28 and 29 April 2008 under the chairmanship of the UN Secretary-General, made a significant step in this direction in that it agreed on a common strategy to confront the global food crisis. This strategy determines short- and medium-term action needs and outlines complementary roles for the partners involved. A high-level conference on food security is scheduled to be held in Rome on June 3-5, 2008.

138. **Establishment of three year program frameworks.** An important lesson from the GPAI was the importance of using three year program frameworks in the context of urgent response planning. Initially, many country plans were based on 12 to 18 month horizons consistent with the availability of bilateral support provided mainly through the UN specialized agencies. This limited the ability of both governments and the UN agencies to adequately anticipate strengthening of critical veterinary and human health facilities and protocols in a coordinated manner. GPAI support, in many cases, resulted in other donors also moving their support to a three year basis which has improved the predictability of resources and hence allowed more coherent planning and implementation.

139. **Importance of establishing a broad and flexible framework.** One virtue of the GPAI approach was that it provided an explicit positive list and ruled out very little. In this way, the process invited countries to discuss their needs with some expectation that their needs could be accommodated. This approach also ensured that once the emergency response had been addressed (or mitigated in the event that this had not yet occurred) there was scope to undertake systemic interventions in animal, human health and pandemic preparedness that would serve the country well in subsequent outbreaks or in future disease outbreaks of a similar nature. It is important that the GFRP emphasizes its programmatic nature -- and that it is a facility that expects to provide support beyond the initial crisis response period. It would be particularly helpful to be as explicit as GPAI was on the kinds of assistance available and eligible for support.

140. **Component structure of the program and simplicity of design.** The GPAI successfully managed to structure its components and sub-components in a way they were aligned with thematic focus areas, mandate areas of international organizations, and institutional structures in client countries. In addition, numerous emergency projects have shown that project design should be simple and take into account the implementation capacity of the client. The GFRP should adopt this approach to the maximum extent possible.

141. **Structuring a WBG-wide response.** Although IFC has had a lesser role to play in AI – contributing helpfully but periodically when interests overlapped – there appears to be far greater scope for an IFC role (and other MDBs such as EBRD) in the food crisis, given the mix of public and private goods to be addressed, which should be reflected in the program design. Public-private partnerships – especially with the leading food producers, retailers, and input suppliers – should be sought.

142. **Assessing and diffusing good practice information.** The fight against HPAI began to bog down as many countries followed inadequate procedures for compensating small farmers for culled birds, with the result that many did not cooperate with authorities, leading to rapid spread of the disease. The World Bank countered with a target piece of AAA carried out jointly with FAO, OIE and IFPRI that assessed and then diffused good practice in this area, and that was subsequently adopted as best practice by the WBG, the UN system and the EU. In the present crisis, there are many more contentious issues in terms

of reaching target populations and best practices under different circumstances. For example, cash transfer programs -- whether they be unconditional or conditional -- may play a critical role within the GFRP. Lessons from Mexico's PROGRESA/OPORTUNIDADES and Brazil's Bolsa Familia Program as well as Indonesia's large unconditional cash transfer program indicate: (i) that accurate identification and selection of beneficiaries is critical; (ii) cash transfers can be used to mitigate the welfare impacts of price increases; (iii) conditional cash transfer programs can additionally have significant impacts on improving educational attainment of the poor (such as increasing enrollment and reducing repetition and drop-out rates) and on improving health and nutrition indicators; (iv) Cash transfer programs (and particularly CCT programs) do require well-developed administrative capacity and trained staff; (v) SWAps have shown to be particularly responsive to client requests and helpful in building sector-wide systems. However programs such as CCTs are demanding in terms of institutional infrastructure and may not be best in some countries; here and elsewhere the GFRP will need to pay particular attention to pursuing an analytic agenda that serves its stakeholders.

143. **Similarly, access to fertilizers is critical to ensure that production in the coming year does not decrease in the face of soaring input prices, but targeted subsidy programs for inputs have a mixed tracked record.** Targeted subsidy programs can greatly increase farmer access to and application of farm inputs, but their design should take into account the following principles: (i) ensure that the subsidy is transparent and fiscally capped at an appropriate level, so that it does not crowd out other priority agricultural public investments or derail the overall national fiscal budget; (ii) ensure that the subsidy is targeted to those who cannot afford fertilizer to avoid displacing commercial sales; (iii) ensure that the administrative costs of the subsidy are kept to a minimum; (v) ensure that the subsidy does not create the dependency syndrome; and (v) ensure there is an exit strategy characterized by reduction of the subsidy element annually towards an explicit exit point. (vi) make the entire structure of the subsidy program, including its timeframe and allocation scheme, publicly known in advance.

144. **In the same vein as good practice assessment and diffusion for specific interventions, there is a continuing need in crisis management for evaluation and review of progress.** The World Bank can play an important role (in close collaboration with other relevant agencies) to convene partners and beneficiaries periodically to review progress, funding needs and consider adjustments to the program following changes in the operating environment. Regular consultations of this kind will help sustain the partnership, encourage coordination and help avoid duplication. At the project level, M&E systems should include formal information mechanisms such as surveys and audits, but also citizen oversight mechanisms such as social control to promote transparency and accountability.

C. IMPLEMENTATION

1. Partnership arrangements

145. Partnerships and coordination mechanisms will have to be established at all three levels: country – regional – global, building on existing mechanisms for international collaboration, technical exchange and harmonization of support activities to the maximum extent possible, and led by the United Nations system which includes specialized organizations with global mandates and which provides recognized global legitimacy. First of all, emergency relief operations at the country level are the mandate area of World Food Program. Other organizations and partners will be involved as follows: Technical competency--FAO and bilaterals; institutional capacity building--UNDP and bilaterals; social support--UNICEF and bilaterals; financial resources--MDBs and IFAD; private sector activities--MDBs (IFC, MIGA, EBRD); and balance of payment support--IMF, World Bank, EC, DfiD.

146. The roles of all partners will be defined in a financing framework that recognizes the responsibilities and comparative advantage of FAO and WFP as the leading technical and specialized UN

agencies and which is informed by the programs that they have already initiated. In the face of very significant needs, it will be particularly important to avoid duplication and overlap by clearly identifying where specific responsibilities at the global, regional and country levels are to be shared, and where institutions are expected to take the lead with the support of other partners. In implementing support activities, these international partners will seek to build on and support existing coordination mechanisms rather than seeking to establish new entities. Coordination of activities at the country-level will be critical, which will be facilitated by global and regional partnership arrangements but which needs to be led by the countries themselves.

147. Against this background, the World Bank Group, working closely with the international community, can play a critical and complementary role in this international context by providing global financial resources for the implementation of national, integrated and coordinated action plans.

2. Institutional and implementation arrangements

148. The program would support the strengthening of public structures for the coordination and management of the individual country projects, including central and local (decentralized) arrangements for coordination of activities, financial management and procurement. In the case of new development policy operations and supplemental financing for DPOs there will be up front agreement with the government and other financial partners on a coordinated accountability framework or modifications to an existing framework (policy matrix and monitoring indicators matrix) agreeing on the indicative triggers and expected program outcomes.

A. Project Management

149. Program implementation arrangements will be adapted to the specific country capacity and program requirements. As many of most at-risk countries are fragile states and other very poor countries, and given the urgency of implementation, there will be some trade-offs between approaches which depend fully on country systems and ensuring rapid implementation with fiduciary integrity. Accordingly, initial rapid diagnostics will assess opportunities to work with existing management arrangements based on their logistics performance and quality of their fiduciary control systems, as well as identifying possible alternatives, including specialized project units and contracting with third party implementing agencies such as NGOs, and UN agencies. In cases where UN agencies are employed, fiduciary assessments and agreement on additional strengthening measures, such as technical support for procurement and internal auditing arrangements, will be an integral determinant of design of project management arrangements. Monitoring of project management performance will be an explicit part of overall project monitoring with specific indicators such as those in the program results framework.

3. Monitoring and evaluation of outcomes/results

150. Monitoring and evaluation (M&E) activities related to the Program will be the responsibility of the coordinating structures, with the participation of the relevant implementing agencies in each participating country. Depending on the specific situation in each case, these activities could be carried out by the regular staff of the agencies (with technical assistance) or by contracting out these functions with specialized agencies/institutes when appropriate. Initial rapid diagnostics of country level programs would include an assessment of M&E capacity within relevant ministries/departments and implementing bodies, the availability of agencies/institutes to undertake third-party monitoring and evaluation and identification of specific capacities that would need to be strengthened and supported under the GFRP to ensure effective implementation of Program activities and assess results. Each individual operation will have its own set of objectives, targets, benchmarks, and key performance indicators (according to its

particular situation and capabilities) to monitor progress and to report results in accordance with the Bank's policies.

151. Monitoring project progress and the achievement of objectives will entail a process for reviewing continuously and systematically the various project implementation activities. The purpose of the M&E activities are to: (i) measure input, output and outcome indicators; (ii) provide information regularly on progress toward achieving results and facilitating reporting to the government and IDA/IBRD; (iii) alert managers, both in government and IDA/IBRD, to actual or potential problems in implementation so that adjustments can be made; (iv) determine whether the relevant stakeholders are responding as expected and intended by the project; and (v) provide a process whereby the coordinating and executing agencies can reflect and improve on their performance.

152. The results of relevant M&E activities will be reflected in quarterly and annual progress reports. For investment lending operations, progress reports will cover the progress with the works, the institutional activities, training and studies, performance indicators, and financial management reports (FMR). A section of the progress reports will be devoted to issues identified during project implementation and the strategies and actions to be taken to resolve such issues that affect progress. The fourth quarterly report of each year will be an annual report, providing information of the progress during the past year. In addition, a Mid-Term Progress Report and a final Evaluation Report will be prepared for each country level operation. The Mid-Term Review exercise would be carried out by the Borrower and the Bank to discuss the experience accumulated during the first year and a half of implementation and to discuss possible adjustment to the project design, implementation schedule and expected outcomes/results. Similarly, a final Evaluation Report should be prepared after the project completion providing detailed information on the accumulated impacts achieved by the project as well as the main lessons learned that could serve for similar operations elsewhere.

4. Sustainability

153. Critical to the sustainability of country projects under the proposed instruments (APL/ development policy operations) would be the continuous ownership of this initiative by the various stakeholders, coupled with strong political support and the availability of an adequate flow of financial resources to carry out country-level Program activities. This will be further reinforced through the continued attention to food security and vulnerability to food prices by the UN and Bretton Woods Agencies through international fora and program reviews. Sustainability will also require ensuring that the policies, programs and projects put into action be designed in a way that improves food security, without threatening the environment. Short-term agricultural production increases should not threaten or compromise long-term environmental services.

154. In addition, institutions sustainability would be ensured by: (i) strong information and communications services; (ii) strengthening food security-related information system and monitoring; (iii) strengthened country capacity to manage the food security situation and safety net programs at national and local levels; (iv) effectiveness of implementation including the choice of well designed, cost-effective interventions and carefully phasing and monitoring of interventions, allowing for modifications and redesign as needed.

5. Critical risks and possible controversial aspects

155. Critical risks relate to sustained political commitment, institutional, technical and fiduciary aspects of the program and the specific country environments. The following section provides an overview of these risks with special attention to the program's approach to fiduciary governance and other fraud and corruption risks.

Risk	Rating	Mitigation Measures
Critical Additional Resources Are Not Readily Available		
1. Declining national and international political commitment to fund efforts to address the food crisis thus reducing coverage of vulnerable groups	H	Continued efforts to mobilize national and international commitment and resources
2. Bank grant and loan financing not readily available, leading to project delays	S	Rapid disbursement procedures and simplified public sector procurement within projects in accordance with OP for emergency operations
3. Expert advice to address systemic issues in various sectors cannot be accessed in a timely and predictable manner, reducing component effectiveness	M	Project activities will be designed and implemented in coordination with leading multilateral and UN agencies, regional bodies, and bilateral and other donor organizations
Client Delivery Structures Lack Capacity		
4. Limited number and/or poorly trained staff in health, education and other facilities in rural and peri-urban areas, coupled with low quality of services, hinder expansion of coverage, service delivery, and actual demand and utilization of services	H	APL activities would be coordinated with efforts undertaken by other international organizations and donor governments, as well as with ongoing sectoral projects funded by the World Bank to maximize the impact of sector initiatives and reforms, both at policy and institutional levels
5. Capacity, authority and leadership of the program implementing agencies not sufficient to take a leading role in managing a multi-sectoral response	S	Adequate implementation arrangements need to be in place as a pre-condition of Bank financing; careful monitoring of leadership and project management during project implementation; technical assistance and training
6. Inadequate capacity among local institutions to manage components and to perform effectively	S	Policy measures will be designed to avoid straining scarce institutional capacity and seek greater reliance on markets, NGOs, partnerships and other appropriate mechanisms. Project management plans designed to identify key risks for local institutions.
Oversight Arrangements Are Weak		
7. Procurement performance is poor and/or integrity is compromised leading to delays, elevated prices or poor quality	H	Procurement capacity and control framework will be assessed as part of rapid diagnostic to inform risk mitigation plans on the Bank and client side, which may include the funding of independent procurement advisers, technical field audits enhanced Bank oversight, and integration of social accountability mechanisms through public access to bidding documents, bid evaluation results and key contract provisions and delivery requirements..
8. Inefficient administrative arrangements and ineffective control systems can delay flow of funds, result in abuse of “soft expenditures” for per diems, training, travel and other incremental operating expenses such that these funds are not available for implementing staff in the field.	S	Flow of funds arrangements and financial management capacity and control framework will be assessed as part of rapid diagnostic to inform risk mitigation plans on the Bank and client side, which may include funding for financial management consultants, internal audit consultants and training and enhanced, annual external financial audits as well as integration of social accountability mechanisms as available in the countries to verify field visits, trainings, etc.
9. Low priority given to transparency and public participation in general project implementation reduces scope to engage existing community capacity and to strengthen basis for social accountability mechanisms to reduce fraud and corruption.	S	Projects will include communications programs to ensure that information on project objectives, planned assistance, requirements and targeting are available to the general public, including working with communities in targeted areas to ensure broad awareness and understanding, as well as independently managed complaint receiving and follow up mechanisms. Governments will be encouraged to work with civil society groups in design and implementation consistent with country context. .

10. Inadequate capacity for planned surveillance, surveys and monitoring and evaluation	M	Technical assistance and partnership between local organizations and international institutions will be provided. M&E plan will include information on instruments for data collection, agencies responsible and a detailed timetable.
11. Effectiveness of regional programs is reduced due to high international coordination costs, poor coordination with country based initiatives, inadequate reflection of national needs, <i>etc.</i>	S	Ensure strong upfront agreement of client country governments in case interventions are cross-border or need to be coordinated. Consultation with country teams – unless program is country based – to ensure coordination with Bank national efforts. Work based on national / cross-boundary diagnostics.
Inadequate Coordination Among Development Partners		
12. Inadequate or lack of multi-sectoral participation by local stakeholders in the design and implementation of components, potentially increasing the risks of political capture and of interventions not addressing beneficiaries' needs.	M	National Steering Committees overseeing the program selected to be representative with access to high political levels and given visibility; annual work programming transparent.
13. Low regional/provincial-level commitment means that strong central commitment does not translate into action on the ground.	S	Implementation mechanisms explicitly address the link between the required centralized decision making (the principle of 'direct chain of command') with the needed local-level implementation, communication strategies include local-level implementing actors as targets; capacity building includes periphery. Safeguard measures in place to ensure outreach to widest range of affected communities.
14. Coordination among donors is weak, resulting in overlapping activities, delays or in the case of collaborative arrangements, cancellation of project components.	M	Coordination meetings to be held upstream with bilateral and other donor organizations and convened by World Bank.
Leakage in the Targeting of Beneficiaries		
15. Low capacity at local levels to collect data for selection of beneficiaries and/or verification of service conditionalities thus increasing the risk of elevated number of ineligible.	M	Capacity building to be identified and funded as part of project safeguard and other management plans Use self-targeting commodities and programs (e.g. those with a work requirement) where possible. Involve local government authorities and NGOs in selection of beneficiaries.
16. Low compliance by beneficiary population with health and education conditionalities thus leading to leakage of funds to ineligible beneficiaries	M	Provide alternative safety nets for very poor households unable to meet conditionalities. Safeguard and other management plans to include identification of benefits and delivery mechanisms for local population.
17. Selection of program beneficiaries following a targeting approach may result in pressure from excluded groups to diver assistance to less-vulnerable groups.	S	Project will support advocacy and coalition building to sensitize key groups including policy makers, the media, and religious leaders. This will be complemented by carefully designed mass communication campaigns to build support for the program among the wider population.
Inadequate Component Design Create Suboptimal or Adverse Impacts		
18. Inadequate project design causes further stress on environmental services, such as water supply, or poses further health or safety risks to communities.	M	Where appropriate, environmental impacts studies conducted to ensure project design does not cause environmental damage.
19. Intervention activities are not effective or efficient in controlling or preventing the risk or threat of a generalized food crisis in a country.	S	Project activities would strengthen response capacity in selected priority areas in the short- and medium terms and lay the foundations for a broader-based strategy, including broad awareness and communication campaigns, which would be critical to mobilize political support for the program. Choosing well designed, cost-effective interventions. Interventions phased and carefully monitored, allowing for modifications and redesign as needed. Service delivery de-centralized with the maximum use of local governments and civil society organizations. Good M&E to flag emerging issues

Fiduciary Governance and Anti-corruption

156. **This program recognizes the great variations in the fraud and corruption risks among GFRP supported activities and their potential impact on effectively supporting implementation agencies in their efforts to reach the most vulnerable beneficiaries.** The risks of fraud and corruption in the activities financed under this APL will vary based on program design, urgency and country context. At the program level, there are three distinct drivers of fraud and corruption risks in terms of threats and control weaknesses:

- *rapid disbursement* of funds with streamlined procedures to meet urgent needs;
- *high-risk countries* in conflict, coming out of conflict, and/or with systemic corruption; and
- *constrained capacity* in some types of operation for governments, the Bank and development partners to undertake in-depth fiduciary and other oversight.

157. **Five key principles guide the Bank's approach to mitigating fraud and corruption risks.** The GFRP is consistent with the Board approved strategy for *Strengthening World Bank Group Engagement on Governance and Anticorruption* (March 21, 2007) as it, *e.g.*, advances fraud and corruption diagnostics; leverages transparency and communications to strengthen accountability; incorporates on INT lessons; develops anti-corruption plans for high-risk projects; *etc.* The program's overall strategy for mitigating fraud and corruption risks is to:

1. *Focus on interventions that build on the Bank's comparative advantages* such as financial strength, deep sector expertise, procurement, financial management, *etc.*
2. *Channel resources through existing project structures* to components related to food security by accelerating disbursements, reallocating resources within the project envelope, using contingency lines, and requesting additional financing.
3. *Scrutinize new projects and those existing projects being substantially expanded* through rapid appraisals, including the identification, assessment and mitigation of key fraud and corruption risks based on risk maps developed as part of this program based on assessment of best practice in ongoing programs worldwide.
4. *Apply streamlined procedures as outlined in OP/BP 8.0 only when needed* on a project by project basis, recognizing that some types of procurement may not benefit from the streamlined procedures.
5. *Ensure effective supervision* of implementation of fraud and corruption mitigation mechanisms consistent with the GAC framework approaches being developed in each region and ensuring that these are explicit elements of program monitoring frameworks.
6. *Embed social accountability mechanisms* by creating formal oversight roles for civil society organizations in monitoring service delivery, undertaking community / corruption surveys and so forth.

158. **Risk mitigation strategies are incorporated into the discrete components of the program.** The risk profile and risk mitigation approach for the individual components are outlined below. A fuller explanation and guidance to Operational staff based on emerging best practice, to be used in conjunction with country experience and operation specific requirements, is attached in annex 1d.

Component I. Price Policy and Market Stabilization: analytics, policy advice and ICT. Development outcomes will be negatively impacted, if benefits are captured by elite groups or insiders designing the policy responses; monopolists and cartels capture economic rents to the detriment of consumers; import documents are falsified and duties not paid in full; deliveries of food are of a lesser quality or quantity than stipulated; contracts are steered to favored bidders; invoices are paid twice *etc.* Monitoring of price spreads between import cost and domestic market prices can help to identify situations of possible non-competitive practices. Open auctions of grain imported by tender, involving small lot sizes and in several locations, and easing / removal of any credit restrictions for trade are options to promote increased participation of small traders and increase competition in the market. These actions will be combined with appropriately designed procurement packages and schedules, independent procurement oversight in high risk environments, and closer Bank supervision.

Component II. Food Access: financial transfers, school feeding and nutrition and health programs. The capture of benefits by ineligible recipients; bribe demands by officials to legitimate beneficiaries; theft of food, cash and medical supplies in the distribution channel; payment of fictitious bills and fraudulent reproduction of food stamps represent some of the key risks under this component. The potential approaches to mitigating them consists of careful program design and supervision to minimize incentives, reduce opportunities and increase risks of detection, *e.g.*, through well designed paper and computerized registries to detect duplicate beneficiaries, direct (de-layered) cash payments to beneficiaries as feasible and paying through the banking or quasi-banking sector, increased salaries for officials involved in food distribution, involvement of communities in local priority setting, improved complaint handling mechanisms, “citizen score cards” to evaluate health care services, unannounced spot audits to detect irregularities and deter potential offenders. Where payments are in kind, providing sealed bags of grain can reduce short weight distribution. Specific efforts are also required to ensure that the poor know of their potential eligibility for the program and can access the application and interview process.

Component III. Food Production and Marketing: seed and fertilizer development, live stock production, irrigation, extension services and institutional support. Contract steering in the purchase of fertilizers and seed; delivery of extension services by unqualified NGOs and consultants; misrepresentation of services and training delivered; and delivery of substandard small-scale infrastructure represent some of the risks under this component. The response to these risks may include due diligence of NGO’s and consultants past performance prior to issuance of contracts; closer supervision of the supply chain by the government, independent technical supervision agents and UN partners; and surveys and social accountability mechanisms which engage beneficiaries and communities to verify and evaluate extension service and infrastructure delivery.

Component IV. Implementation Support and M&E. The fraud and corruption risks in this component include the delivery of training and other services by unqualified NGOs and consultants; misrepresentation of the delivery of such services; diversion of project equipment for non-project purposes; and manipulation of monitoring and evaluation reports to cover fraud and corruption. The mitigating controls consist of improved inventory and equipment and vehicle management procedures,, beneficiary confirmation and spot checks of service delivery, independently managed complaint handling mechanism separate from specific implementing agency with regular reporting, and independence of the officials and consultants undertaking monitoring and evaluation vis-à-vis implementing units.

D. APPRAISAL SUMMARY

1. Economic and financial analyses

159. At this stage, it is not possible to pre-determine the specific interventions to be supported under this framework document; the related financial and economic opportunity costs; the direct and indirect beneficiary populations; and the benefits to be generated are not pre-determined. A diverse and complex set of possibilities exists, by sector and by country. It would not, therefore, be appropriate or even possible to carry out detailed *ex-ante* rate of return analyses for such a program.

160. Rather, the program's design seeks to establish a decision framework such that the interventions supported by the program will be an efficient and rapid use of scarce resources in alleviating hunger. The organizing principles for ensuring the good use of scarce resources are: ensuring that activities are internally consistent in the short and long-term; that good practice examples are scaled up; and that rapid appraisal of specific investments are proposed for funding in each country program. This rapid appraisal process will review the following factors, based on standard good practice for the economic evaluation of public investments: (1) the sector policy context; (2) the proposed target beneficiary group(s) (3) the expected effect, or benefit, and cost-effectiveness and/or cost-benefit ratios; and (4) analysis of fiscal sustainability. Details are given in Annex 5. The appropriateness of specific instruments for achieving specific goals in specific places will be addressed in the individual proposals for specific country-level actions.

2. Technical

161. **Technical Annexes** should be prepared for all new and restructured loans, credits, grants under the GFRP. They should follow principles set down in guidelines for project appraisal (or reappraisal, in the case of restructuring projects to provide for significant changes) as currently applied under OP/BP 10.00 on Investment Lending and OP/BP 8.00 on Rapid Response to Crises and Emergencies.

3. Fiduciary

162. **Financial management** assessments will be undertaken in connection with each individual loan/credit/grant to be financed under the Program in accordance with the requirements of OP 10.02, while for operations processed under OP 8.00 the flexibility allowed for rapid response operations would be applicable (including flexible designated account procedures, payment methods and shorter turn-around time on replenishments). For each project, the Bank requires the Borrower to maintain financial management arrangements that are acceptable to the Bank and that, as part of the overall arrangements that the Borrower has in place for implementing the operation, provide reasonable assurance that the proceeds of the loan/credit/grant are used for the purposes for which the loan/credit/grant was granted. Minimum internal controls, including internal audit, should be available prior to flow of funds. In this regard, the recipient country will need to engage the necessary expertise, systems and capacity, or outsource the functions to local consultants or other agencies in the country to work in the Program Unit on fiduciary issues, should this not be available at the outset. On this basis, appropriate financial management arrangements will be designed for each project, which would be consistent with Bank and regional specific requirements, and will be described fully in each PAD. When available, and considered acceptable to the Bank, the existing country arrangements for fiduciary functions would be used.

163. **Procurement** will be undertaken in connection with each individual loan to be financed under the Program, in accordance with OP/BP 11.00, although for operations processed under OP 8.00 the flexibility provided for rapid response operations would be applicable. Procurement of works, goods and

services, if any, required for the activities to be financed from a loan/credit/grant under this Program shall be undertaken in accordance with the procedures set forth in the Bank "Guidelines -Procurement under IBRD Loans and IDA Credits" dated October 2006 (the Procurement Guidelines). Similarly, the selection and employment of consultants' services shall be governed by the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated October 2006 (the Consultant Guidelines).

164. Where the urgency of the situation and in-country capacity constraints call for alternative implementation arrangements of urgent activities by the UN, the FPCR trust fund could be utilized to fund such activities using agreements with agencies of the UN that shall provide for application of UN policies and procedures that are agreed with the Bank. The process of negotiating individual agreements with UN agencies has led to delays in the past. A process is underway to agree with the UN agencies on a framework that would govern these types of agreements and this framework is expected to be in place shortly. In the interim some understandings have been reached in terms of procurement, fraud and corruption, and financial management issues. Under the GFRP, to ensure that there are no delays, it is preferable to have the UN agencies apply their rules taking into account the understandings reached until the new framework is put in place. Once the new framework is in place, it is expected that UN implementation under GFRP would follow this new framework.

4. Environmental and social aspects

165. The Program is expected to contribute to a reduction in environmental and social stress due to its potentially wide range of efforts to improve access to and the availability of food in communities most at risk due to high food prices. Provided that these efforts are designed in a transparent and thoughtful manner, they should reduce the stress on environmental and social systems that arise from food shortages and lack of access to food, and that force many societal groups, including the most vulnerable, to degrade ecosystems of their supplies.

166. Nevertheless, even with the best of intentions, there may be interventions that could have adverse environmental and social impacts. Such adverse impacts can arise at both the policy and investment project level. Policy choices may have unforeseen effects, or may be choices between the lesser of two evils and may need a range of environmental, social and poverty relevant analyses. Investment projects may need assessment studies and planning tools to ensure that measures are in place to manage and mitigate potential harm. These analyses and planning tools may be necessary because of impacts and pressures that can occur within a wide range of activities, including the following:

- (a) Impact on land conversion, e.g., pressure to convert natural habitat to agricultural land;
- (b) Poor agricultural practices that damage long-term soil productivity, or harm other environmental services;
- (c) Impact on natural resource tenure – i.e. rising land values which may lead to the annexing of common property resources, and loss of significant livelihood resources for poor people;
- (d) Pressure to use potentially controversial seeds, foods, animal feed, or pesticides that, unless handled with transparency and appropriate measures, could have political repercussions or impact on trade practices or the environment;
- (e) Phytosanitary practices that could have adverse impacts;
- (f) Fertilizer use or production that could have adverse impacts if not properly applied or developed;
- (g) Pressure to adjust or change historic water supply systems that could also implicate international water issues between riparian states;
- (h) Pressure to rapidly construct levees or dikes related to irrigation systems without adequate safety and engineering design measures;
- (i) Pressure between food and fuel production;

- (j) Pressure for government to address different approaches between Indigenous and non-Indigenous communities;
- (k) In times of shortages, political pressure to reward certain politically favored communities with foodstuffs, over those out of political favor.

167. When the Program provides investment project opportunities, it will address these potential environmental and social aspects through application of an Environmental and Social Management Framework at the appropriate level, be it regional, country or sub-national. Through application of this ESMF, the project team will be able to determine which safeguard policies should be triggered and, following public consultation, determine what environmental and social plans and measures are needed to address the environmental and social aspects. The project's legal agreements will then need to incorporate these plans and measures to ensure their implementation.

168. For policy lending operations under OP 8.60, Poverty and Social Impact Analysis (PSIA) and environmental review tools such as Strategic Environmental Assessment (SEA) can be applied to proposed policy reforms to ensure that positive distributional impacts of proposed reforms are maximized – and negative impacts on the poor and the environment minimized. In addition, PSIA and SEA or its like can help define the trade-offs between policy choices, assess the appropriateness, timing, and sequencing of reforms, and better define appropriate compensatory and complementary measures if appropriate. An example of an area where PSIA has been extensively applied and should be used as a tool to improve the ex ante design of policy measures, is the adjustment of regimes of food subsidies as well as input subsidies. Strategic environmental review instruments such as SEA have been used to review the environmental impacts of significant policy changes such as in the agriculture, energy, or natural resource sectors.

5. Safeguard policies

169. The wide range of possible Program interventions to address the food crisis are expected to have positive environmental impacts but, as adverse impacts are possible, the Program is assigned a Category B under OP 4.01 on Environmental Assessment (EA). In addition, because investment projects or sub-projects have the potential for a range of adverse impacts, the project will require use of an Environmental and Social Management Framework (ESMF) which can identify and put in place measures so that EA will be performed and implemented in accordance with the appropriate EA category.

170. The ESMF will make clear that all ten safeguard policies must be considered when reviewing each investment project. However, at this stage, the Environmental Assessment policy (OP 4.01) is the only policy that is triggered. OP 4.01 will be considered at each investment project concept stage for all projects unless the Program finances a Development Policy Loan, in which case the environmental and social review provisions of OP 8.60 will apply.

171. The ESMF will detail the agreed policies, guidelines, and procedures to be integrated into the implementation of the Project.

172. Implementation of the ESMF will also support and assist with the achievement of compliance with applicable laws and regulations and with relevant Bank policies on environment and social development issues. Key ESMF principles will include :

- The ESMF will provide guidance on the approach to be taken during implementation for the selection and design of investment projects and the planning of mitigation measures;

- That projects with the potential for significant environment and/or social impacts will be identified through the project screening mechanism and the specific environmental and/or social assessment will be prepared and will be the subject of review and approval by the World Bank;
- As necessary, there will be preparation of resettlement action plans (RAPs) in accordance with OP 4.12 for any project involving land acquisition and associated impacts or involuntary relocation of affected people prior to the approval of the sub-project.
- As necessary, there will be preparation of Indigenous Peoples plans (IPDPs) in accordance with OP 4.10 for any project that may affect Indigenous Peoples prior to approval of the sub-project.
- As necessary, there will be preparation of any other necessary plans, including those for Pesticide Management (OP 4.09), Dam Safety (OP 4.36), and Physical Cultural Resources (OP 4.11).

173. Consultation and disclosure requirements will be adapted to meet the special needs of the proposed project. The ESMF and subsequent implementation plans will be disclosed in government websites, the Infoshop, and other public places accessible to the local people and NGOs in English and the local language.

6. Policy exceptions and readiness

174. Where projects under the Program are processed in accordance with OP 8.00, there may be cases where an exception is appropriate to the normal practice of having the EA requirements completed prior to appraisal. In such cases, this exception is permissible under OP 4.01, para 12 and OP 8.00. Specific dated covenants will be included in the applicable project legal agreements.

E. CONCLUSIONS AND RECOMMENDATIONS

175. The GFRP is being set up as an overall framework to facilitate a rapid Bank response to the food price crisis with all available tools while coordinating action in partnership with other multi-lateral organizations and donor agencies. As described in this paper, the Bank will be providing support to countries through a mix of technical assistance, development policy and investment operations, under four components: (i) food price policy and market stabilization, (ii) social protection actions to ensure food access and minimize the nutritional impact of the crisis on the poor and vulnerable, (iii) enhancing domestic food production and marketing response, and (iv) implementation support, communications and monitoring and evaluation.

176. In moving forward with the GFRP,

- Management seeks the **endorsement** of the Executive Directors for the proposed Global Food Crisis Response Program, which would provide support to crisis-affected countries through loans, credits, and grants up to the amount of US\$ 1.2 billion.
- Further, to ensure that the Bank is able to provide a timely response to the needs of crisis-affected countries Management is asking for **Board approval** to expedite the processing of operations under the GFRP as follows:
 - i. Approval of investment operations after the first two would be delegated to Management, following current practice for APLs. Management approval would be ‘in-principle’ and project documents would be circulated to the Board for information, with approval becoming effective 5 working days thereafter, unless,

consistent with current APL process, at least three Executive Directors request Board discussion of the operation.

- ii. Approval of development policy operations (DPOs) presented under the GFRP would follow the same process as that followed for investment operations, i.e., approval of operations after the first two would be delegated to Management. Management approval would be 'in-principle' and project documents would be circulated to the Board for information, with approval becoming effective 5 working days thereafter unless a Board discussion on the operation is requested by at least three Executive Directors.

Annex 1: Menu of Instruments and Processes

	New Operations ⁱ	Restructuring existing Operations	Additional/Supplemental Financing
<p>Operations under the GFRP can be financed through:</p> <ul style="list-style-type: none"> - IDA/IBRD - FPCR TF - IDA Regional Fundsⁱⁱ 		<p>Creating a new component in an ongoing operation with undisbursed balances.</p>	<p>Adding additional financial resources to an ongoing operation.</p>
<p>➤ Approval Process</p> <p><i>* Investment Lending (IL) Operations will fall under the umbrella Horizontal APL</i></p> <p><i>* See relevant guidelines on OPCS website for more detailed processing steps.</i></p> <p><i>* Please note that IDA Regional projects are subject to the eligibility criteria outlined by the IDA deputies and special FRM clearance process.ⁱⁱⁱ</i></p>	<p>IL under OP/BP8.00^{iv}</p> <ul style="list-style-type: none"> • First 2 APL projects under Framework- full board • Others: in principle RVP approval • Circulated to EDs for information. Approval effective 5 working days thereafter. • Could be scheduled for Board discussion if at least three EDs so request 	<p>IL under OP/BP8.00:</p> <ul style="list-style-type: none"> • Assessment of project performance must be completed and rated satisfactory prior to restructuring (OP13.20, Para. 2) • Implementation of the project activities must be completed within three years after the current closing date of the original project (OP13.20, Para. 2(iii)) • Significant changes to be submitted for approval to EDs (1st order restructurings) or RVP (2nd order restructurings); minor changes approved by CD (recorded in ISR)^v • For 1st order restructuring same approval process as under New Operations 	<p>IL under OP/BP8.00:</p> <ul style="list-style-type: none"> • Assessment of project performance must be completed & rated satisfactory prior to requesting additional financing (OP13.20, Para. 2) • Implementation of the project activities must be completed within three years after the current closing date of the original project (OP13.20, Para. 2(iii)) • Independent terms and conditions apply for the additional funds (OP13.20, Para 3) • CD obtains agreement from Regional Management on level of approval required; RVP-level Decision Meeting or EDs Approval • If EDs approval required same approval process as under New Operations
	<p>IL under OP/BP10.00:</p> <ul style="list-style-type: none"> • Same as above 	<p>IL under OP/BP10.00:</p> <ul style="list-style-type: none"> • Same as above 	<p>IL under OP/BP10.00:</p> <ul style="list-style-type: none"> • Concept Memorandum to be approved by CD & OPCVP • Approval process as under New Operations
	<p>DPO under OP/BP8.60:</p> <ul style="list-style-type: none"> • Adequacy of borrower's macroeconomic framework required • First 2 DPOs standard Board; others same as above 	<p>DPO under OP/BP8.60:</p> <ul style="list-style-type: none"> • For multi-tranche operations, revisions to tranche conditions are approved as under New Operations 	<p>DPO under OP/BP8.60:</p> <ul style="list-style-type: none"> • Supplemental financing provided as separate loan and constitutes new loan commitment in support of the program under implementation. • Approval process as under New Operations

	New Operationsⁱ	Restructuring existing Operations	Additional/Supplemental Financing
<p>➤ Documentation</p> <p><i>Document templates can be found on the OPCS website.</i></p>	<p>IL under OP8.00:</p> <ul style="list-style-type: none"> ISDS; PID; Emergency Project Paper (EPP); Simplified Procurement Plan (SPP); Legal Agreement 	<p>IL under OP8.00:</p> <ul style="list-style-type: none"> Restructured Project Paper (RPP); revised ISDS; revised PID; revised SPP; cover MOP; amended or new Legal Agreement 	<p>IL under OP8.00:</p> <ul style="list-style-type: none"> Additional Financing Project Paper (APP); revised ISDS; revised PID; revised SPP; cover MOP; amended or new Legal Agreement
	<p>IL under OP10.00:</p> <ul style="list-style-type: none"> PCN; PID; ISDS; PAD; cover MOP; Legal Agreement 	<p>IL under OP10.00:</p> <ul style="list-style-type: none"> Memorandum to CD; Updated PID; revised ISDS; RPP; cover MOP; amended or new Legal Agreement 	<p>IL under OP10.00:</p> <ul style="list-style-type: none"> Memorandum to CD; Updated PID; revised ISDS; APP; cover MOP; amended or new Legal Agreement
	<p>DPL under OP8.60:</p> <ul style="list-style-type: none"> Concept Document; PID; PD with policy matrix; Letter of Development Policy; Legal Agreement; Memorandum of the President 	<p>DPL under OP8.60:</p> <ul style="list-style-type: none"> Written request from borrower Amended Legal Agreement 	<p>DPL under OP8.60:</p> <ul style="list-style-type: none"> Supplemental Financing Document (SFD); amendment to Legal Agreement

ⁱ In addition to new funding, new operations can be financed through the reallocation of undisbursed IDA/IBRD funds in the country's existing portfolio. This would entail first cancelling an equal amount of undisbursed resources from ongoing operations. For IDA operations, cancelled IDA funds will not revert to the general pool of IDA resources for redistribution, but will be made available for recommitment back to the country without being deducted from its IDA allocation.

ⁱⁱ Access to IDA Regional funds is subject to the following eligibility criteria - regional projects need to involve three or more countries, all of which need to participate for the project's objectives to be achievable (i.e. the project would not make sense without the participation of all countries); and need to generate significant positive externalities or mitigate negative ones. Projects are assessed on a case by case basis to determine whether they meet the eligibility criteria.

ⁱⁱⁱ For additional information see - <http://intresources.worldbank.org/INTCFP/Resources/RegionalProjectGuidelinesFY08.doc>

^{iv} OP8.00 offers Bank teams a number of possible options for responding to emergencies. These may include: (a) non lending support such as provision of assistance for damage/needs assessment, convening donor meetings and TA; and (b) lending/financial support through a combination of (a) new lending via and ERL or ERC; (b) restructuring, or reallocation within existing projects with or without additional financing; (c) supplemental development policy loans or credits; (d) transfers from the surplus; (e) mobilization of donor assistance including establishment of TFs; and (f) accessing grants from the Bank's programmatic post-conflict, LICUS and other TFs.

^v On receipt of a written request from the borrower to introduce changes to the development operation, the CD, in consultation with the TL and lawyer, determines whether the change is significant or minor.

Annex 2: Summary of Strategies of the Partners

1. World Food Programme (WFP):

The WFP has outlined a three-pronged approach:

- i. **Immediate – Crisis Response and Safety Nets.** Governments will need to launch emergency assistance and enhance safety net programmes to meet urgent needs. Governments must also scale up food security and nutritional surveillance to identify and address needs early. In extreme cases of unrest or rising malnutrition, food distributions to targeted populations may be needed. WFP helps governments and partners cope with urgent needs by:
 - deploying experts to help identify who is most affected and where they are through assessments and vulnerability analysis
 - scaling up WFP-supported safety nets, such as school feeding, therapeutic or supplementary; feeding for mothers and children, public and community works, and cash voucher programs²⁰
 - providing a platform for agencies to scale up their nutrition or food security activities, such as working with UNICEF and NGOs to add nutritional food for younger siblings to school feeding activities
 - planning and implementing general food distributions in extreme cases
 - lending logistical support to government and partner agencies to assist vulnerable people
 - supporting food security and nutrition surveillance

In addition, WFP regularly conducts a variety of assessments, baseline studies, and monitoring activities. To date, WFP country offices in Afghanistan, El Salvador, Mauritania, and Senegal have conducted assessments relating to the most recent run-up in food prices. Six further national assessments are planned in May and June that will primarily focus on urban areas in Ethiopia, Haiti, Kenya, Nepal, Niger, and Zimbabwe.

- ii. **Medium term – Boost Agricultural Production.** The increased demand for food and food products provides a unique opportunity to boost agricultural production. Enabling farmers to respond to that demand will entail ensuring their access to sufficient seeds and fertilizer. It will also involve identifying areas in need of improvement, such as irrigation, pest management, and conservation tillage, and increased investment in agriculture to support those improvements. WFP can help governments and partners to boost agriculture production by:
 - purchasing food for assistance programs directly from smallholder farmers
 - mobilizing public and community works to improve irrigation, construct crop dryers and stores, support conservation agriculture, etc.
 - distributing food together with seeds to prevent seed consumption
 - providing logistical support to FAO, IFAD, NGOs and other partners
- iii. **Longer term – Policy Reform.** WFP will emphasize the need to review and reform existing government policies to mitigate the impacts of high food prices, while helping poor rural households to capitalize on the opportunities that the increased demand for food creates for farmers. This will include establishing new food- and cash-based social protection systems, reviewing subsidies and tariffs, addressing land reform challenges, and leveraging private sector investment,

²⁰Scaling up can include expanding to new areas, adjusting the type or amount of food or cash provided, revising entry criteria, etc.

and putting into place effective and non-distortive measures for coping with international food price fluctuations. WFP can assist governments and partners with policy review and reform by:

- establishing and supporting monitoring systems to track food security and vulnerability
- strengthening national food distribution programs and safety nets
- piloting and supporting innovations in programming, procurement, logistics, and food fortification
- sharing experiences across countries and regions
- championing sound and sustainable policies with the World Bank, UNDP, FAO, IFAD and other partners

2. Food and Agriculture Organization (FAO) and the Initiative on Soaring Food Prices (ISFP)

Current implementation plans for the ISFP:

- Setting up an inter-departmental ISFP Secretariat.
- Coordinating with the MDG Africa Initiative Food Security Thematic Group co-chaired by FAO and AU and work closely with NEPAD.
- Organizing a programming workshop in Johannesburg from May 20 to 24 for between ten and fifteen African countries to develop country programs in cooperation with the Bill and Melinda Gates Foundation, the World Bank (AFTAR), and NEPAD/CAADP
- Holding a “High-Level Conference on World Food Security: The Challenges of Climate Change and Bio-energy” in Rome June 3-5, 2008, under the auspices of the UN Secretary General.

Programmatically, IFSP will focus on:

- Assisting vulnerable farmers with insufficient access to inputs to increase local production. Activities started in Burkina Faso, Mauritania, Mozambique and Senegal (TCP funding) and other countries to follow.
- Assisting governments in preparing appropriate programs and strategies to expand agricultural production and productivity, within existing national development processes and partnerships.
- Promoting the creation of national committees on soaring food prices through its country offices, primarily in countries most affected by the food crisis. (FAO is preparing an ISFP Guide for Country-level Action for use by these national committees. The Guide reviews various instruments that could be used, their likely effects, and conditions under which they are likely to be successful.)
- Creating a Monitoring Unit on Food Prices and Market Intelligence built upon the existing food security early warning systems and market information and analysis systems. The unit will improve knowledge at global, regional, national, and local levels, including the analysis of the price transmission mechanisms both spatially and along the food chain. The unit will be established in close collaboration and partnership with the World Bank, IFAD, WFP and IFPRI.

3. **The International Monetary Fund (IMF)**

Assistance to countries dealing with the food crisis can be channeled through a number of instruments. Main options include:

- The Poverty Reduction Growth Facility (PRGF) is the IMF's low-interest lending instrument for low-income countries. PRGF-supported programs are framed around comprehensive country-owned PRSPs. As of October 2007 there were 78 countries eligible for PRGF lending. There are now 24 countries with a PRGF program in place and several under negotiation.
- The Exogenous Shocks Facility (ESF) provides policy support and financial assistance to low-income countries facing exogenous shocks. The Facility is available to countries that are eligible for the PRGF but that do not have a PRGF program in place. Financing terms are equivalent to a PRGF arrangement and more concessional than under other IMF emergency lending facilities.

4. **World Health Organization (WHO) and United Nations Children's Fund (UNICEF).**

For those effected by the global food crisis, the WHO has been coordinating the health response of various actors by helping to:

- promote disease prevention and surveillance
- monitor malnutrition to help identify cases of moderate malnutrition before they become severe
- train health workers in proper diagnosis and treatment of disease and malnutrition and deliver essential drugs and medical supplies

The WHO has stepped up its support in the Horn of Africa (Djibouti, Eritrea, Ethiopia, Kenya and Somalia) as severe drought has resulted in a food crisis affecting more than 15 million people. The population of the region faces increased risk of starvation and disease, and half of the population needs urgent assistance. Preliminary assessments show that 20 out of every 100 children under the age of five in the region are suffering from malnutrition, putting them at increased risk of death. This is above WHO's emergency threshold of 15 percent. Children who are severely malnourished require special care. People are also at increased risk of malaria, diarrhea including cholera, acute respiratory infections, tuberculosis, measles and meningococcal meningitis. Experience from previous droughts has shown that measles, when combined with malnutrition, is the biggest risk for children, sometimes accounting for up to half of under-five mortality.

Estimated immunization coverage for many areas in the region is low. In Somalia, for instance 30 percent of children are immunized, 64 percent in Djibouti, and 66 percent in Ethiopia. To prevent major outbreaks of measles, at least 95 percent of all children between 6 months and 15 years of age need to be vaccinated. Other vulnerable groups include people with HIV/AIDS whose immune systems are already weakened. Malnourished women who are pregnant or who are breastfeeding are at increased risk of anemia.

5. **The Consultative Group on International Agricultural Research (CGIAR) and International Food Policy Research Institute (IFPRI)**

The CGIAR is a strategic partnership of 64 governments, international and regional organizations, and private foundations supporting the work of 15 international agricultural research Centers (IARCs) committed to addressing hunger and poverty. CGIAR research centers work on food and agricultural policy, crop and animal productivity, including biofuels development, and sustainability issues. Of the 15 IARCs, IFPRI is the one most extensively engaged in work pertaining immediately to the

current food crisis. This work includes empirical research on the drivers of food price increases, better targeting of relief to the ultra poor, generation and analysis of household data sets critical to targeting interventions, assessment of options to promote supply response by smallholders, and research on improved instruments for social protection outcomes. IFPRI also runs an award-winning public outreach operation that has considerable impact on food policy thinking in developing countries and among donors. Other CGIAR centers also maintain policy programs in developing countries and CGIAR Centers house several cross-center initiatives of secondary relevance to the present crisis, but that through spatial datasets could also contribute to better targeting.

MULTILATERAL DEVELOPMENT BANKS

6. **The Asian Development Bank (ADB).** The Asian Development Bank will provide immediate budgetary support to the hardest hit countries in Asia and the Pacific to alleviate their fiscal burdens and cushion the impact of rising food prices on the poor and vulnerable. The ADB has outlined the nature of the food price crisis, its underlying causes, expected impacts and possible responses in a paper titled “Soaring Food Prices: Some Possible Responses.” It has announced plans to lend \$1 billion to the agricultural and natural resources sector in 2008, and to double this lending in 2009. In the short run, ADB will closely work with the affected governments in the region to strengthen safety net programs for food-stressed populations and emergency food security reserves systems. ADB is also supporting the International Rice Research Institute (IRRI) and the International Food Policy Research Institute (IFPRI) to boost research and provision of inputs to farmers to help overcome constraints.
7. **The African Development Bank (AfDB).** The AfDB Group has committed to adding US\$1 billion to its agriculture portfolio, bringing it to US\$4.8 billion. The commitment is part of a short-term strategy to help address the food crisis in Africa. The AfDB has also announced that it will restructure some of its agriculture portfolio to provide a rapid disbursement facility to the tune of US\$250 million. The Bank’s Board of Governors recently approved the establishment of the African Fertilizer Financing Mechanism Special Fund in order to mobilize resources from donors to finance fertilizer production, distribution, procurement, and use in Africa.
8. **The Inter-American Development Bank (IDB).** The Inter-American Development Bank will provide Haiti US\$27 million in grant and concessional resources to assist the Haitian government as it carries out an emergency plan to contain food prices, create jobs, and revive agricultural production.

BILATERAL DEVELOPMENT AGENCIES

9. **The United Kingdom’s Department for International Development (DFID).** DFID is seeking to galvanize a coordinated and comprehensive international response to be led by the World Bank, IMF and UN which will include:
 - Short-term action to deal with immediate hardship
 - A medium-term agenda for tackling opportunities and challenges

In addition, UK has announced a \$910 million aid package which will include:

- \$60 million for the World Food Programme
- \$800 million over five years devoted to agricultural research and part of the DFID’s new research strategy that will help poor countries grow more food for themselves. Half of the new funding will be channeled through the Consultative Group for International Agricultural Research (CGIAR).

- \$50 million this year to boost incomes among the poorest people in Ethiopia, which is one of the most vulnerable countries
10. **The United States Agency for International Development (USAID).** USAID has allocated an additional \$240 million to emergency food aid. With these additional funds, USAID will provide emergency food aid for programs in Zimbabwe, Ethiopia, Afghanistan, Kenya, Haiti, Bangladesh, Somalia, Mauritania, Uganda, and Sudan. This assistance will be distributed by the WFP and private voluntary organizations. President Bush has also called on Congress to approve an additional \$770 million to support food aid and agricultural development programs in fiscal year 2009.
 11. **The European Commission (EC).** The EC will increase spending on food by \$186 million.
 12. **Japan.** The Government of Japan has announced that it will provide \$100 million in food aid within the next three months as an emergency measure to respond to the food crisis. About \$50 million of the aid will be provided mainly to countries in Africa in May through the WFP.
 13. **The Canadian International Development Agency (CIDA).** Canada announced a \$50 million additional allocation in support of food aid. In addition, the Government of Canada is easing restrictions on where food can be purchased. In response to the current and acute food shortage in Haiti, Canada's aid package also includes a special contribution of \$10 million to Haiti through the WFP. Canada is maximizing the effectiveness of its contribution by untying restrictions on food aid. This will provide the WFP and the Canadian Foodgrains Bank (CFB) with the flexibility to procure food commodities from all countries – especially developing countries.
 14. **The Swiss Agency for Development and Cooperation (SDC).** The SDC has allocated an additional \$2 million to WFP emergency assistance.

Annex 3: Guidance for Anti-corruption Preparedness and Supervision

1. **Effective fraud and corruption risk management builds on lessons learned, identifies controls to mitigate risks, and leverages supervision.** Rapid appraisals allow Task Teams to gather further information to inform their risk management strategy. The mitigating controls should be robust, implementable and focused on the critical fraud and corruption risks. The responsibility for implementing controls should be made explicit as several institutions may be accountable, e.g., various Borrower agencies, bilateral development agencies, multilateral agencies, and civil society organizations. The steps outlined below describe some of the practical steps Task Teams may wish to undertake in developing a fraud and corruption risk management framework.

A. **Identify Risks.** A practical approach for Task Teams to identify fraud and corruption risk is achieved by: i) validating the generic risks as identified in this section of the paper; ii) organizing a brainstorming session with Task Team members (incl. former project / CMU staff as necessary); iii) reviewing CPARs, CFAAs, ICRs, supervision reports and other relevant Bank documents; iv) seeking the advice from the Bank's GAC network, e.g., Regional GAC focal points, sector units, INT's Preventive Services Unit, etc.; v) browsing the complaints database hosted by OPCS; vi) searching the Internet; etc. Risks generally relate either to threats such as bribery, fraud, collusion, and contract steering or to control weaknesses, including leakage of bid information, weak complaint handling, ineffective client supervision, etc.

B. **Assess Risks.** Task Teams should determine the impact and likelihood of the risks occurring, recognizing that some risks have monetary impacts while other may have impact on health, the environment, the business climate, *etc.* The process for assessing risks will most often be organic in nature and be based on imperfect information. The risk rating would, therefore, normally change over time as more information becomes available. Such information may show the extent to which controls are working effectively or whether fraudulent and corrupt practices may be taking place.

C. **Identify mitigating controls.** Controls are specific efforts designed to mitigate risks. A broad range of controls are available to the PMU, the implementing agency more broadly, other government agencies (*e.g.*, supreme audit institutions), third parties such as civil society, and Bank and donor agencies. Task Teams should consider defining the key relevant fraud and corruption controls as specific as possible *inter alia* clarifying who has the accountability for undertaking what mitigating actions when and in a manner that can be validated during supervision.

D. **Determine residual risks.** The residual risks should be determined by explicitly juxtaposing risks and controls. Teams may consider what fraudulent and corrupt practices could exist if controls were working perfectly as well as how such practices could circumvent controls and what the impact might be.

E. **Leverage Bank supervision to obtain assurances that controls are working.** Bank supervision is a critical vehicle for monitoring that controls are in place and are working effectively, especially in projects funded under OP 8.00 where ex-post risk mitigation measures need to provide some assurances for the streamlined ex-ante requirements. Positive assurances can be combined with efforts to determine whether any allegations of fraud and corruption have been made to the Bank, various Government agencies, donor, civil society, and other actors.

2. **Key fraud and corruption risks emanating from past operations should be considered.** The Bank and other agencies are increasingly identifying cost-effective mechanisms to combat fraud and corruption in development projects. Regional GAC focal points, OPCS and INT staff can provide further assistance on relevant experience, and Task Teams are encouraged to also consult with UN agencies and other donors and NGOs with specific country experience implementing similar programs. Given the urgent nature of support under the GFRP, activities which provide targeted, direct support to beneficiaries under social safety net or agricultural assistance programs are likely to be prominent in many projects. The table below highlights some of the generic risks associated with these programs and provides indications of options for mitigating risks in project design and supervision. The table is not meant to be exhaustive and the control options listed may not necessarily be effective in the given country, sector and project context. Therefore, the risks and control options in the table below are provided to initiate a discussion among Task Team members about possible fraud and corruption issues in their respective projects.

KEY RISKS	CONTROL OPTIONS
Targeting of Beneficiaries	
<p><i>Needs assessment biased due to improper influence</i></p> <p>Needs are skewed in order to benefit certain strata in society (e.g., local elites may inflate the number of beneficiaries in order to gain from the diversion of project resources)</p>	<p><i>Design</i></p> <ul style="list-style-type: none"> ▪ Use of simple criteria to define eligibility and publication of such criteria in the local and national media ▪ Involvement of diverse members of the community in the selection of beneficiaries ▪ When appropriate, use self-targeting mechanisms such as “inputs for assets” or “public works” programs
<p><i>Fraudulent misrepresentations and bribery by recipients</i></p> <p>Eligible and/or ineligible recipients fraudulently misrepresent their status and/or bribe to obtain benefits under the project</p>	
<p><i>Counterfeit vouchers</i></p> <p>Forged vouchers are produced and sold in the market</p>	
	<p><i>Auditing</i></p> <ul style="list-style-type: none"> ▪ Deployment of a verifiable beneficiary database subject to electronic audit trails ▪ Regular audits by the supreme audit institution and/or public prosecutor’s office ▪ Use computerized registers, constructed in a compatible way and aggregated nationally, that allow for cross-checking of duplicate beneficiaries
	<p><i>Complaint Handling</i></p> <ul style="list-style-type: none"> ▪ Complaint handling mechanism to report any allegations of non-eligible people benefiting from project resources
	<p><i>Third Party Monitoring</i></p> <ul style="list-style-type: none"> ▪ Citizen report cards and other social accountability measures in project monitoring activities
	<p><i>Communications</i></p> <ul style="list-style-type: none"> ▪ Communicate to the poor their potential eligibility for under the program ▪ Communicate to public that random audits will be part of the project (e.g., in CDD projects threats of audits have proven to be highly effective in ensuring proper use of funds)

Training

- Train local staff in identifying “red flags” and report them

Anti-Counterfeit Measures

- Introduce different security features (e.g., use of special paper, voucher designs varying between districts, municipalities, or regions, etc.)
- Time the printing of vouchers so that those in charge of design, printing and/or distribution of vouchers are not able to leak information in time for the supplier of counterfeit vouchers to produce those vouchers.

Distribution of material support (e.g.: Food, Seed, Fertilizer)

Adulteration

Individuals/companies involved in the supply chain may intentionally debase the quality of the goods distributed to beneficiaries in order to benefit from the difference in cost (e.g., low quality of fertilizers/seeds).

- Distribute pre-packaged goods (e.g., providing sealed bags of grain can reduce short weight distribution).
- Unannounced spot audits as part of the supervisory package.
- Community monitors to randomly check the quality of goods distributed
- Complaint handling mechanism to report any allegations of food adulteration

Theft

Actors involved in the food supply chain divert food for personal benefit (e.g., looting in storage facilities, during transportation to distribution sites, and/or during distribution to beneficiaries; decrease in the intended rations; selling of goods in the black markets; withholding of small amounts for personal use or sharing with other relatives; diverting of building materials to support construction of private residencies instead of project infrastructure; stealing of demonstration materials).

Logistics

- Incorporate better systems to account for goods (e.g., establish a logistics food database to trace the food in the supply chain process; incorporate technologies such as RFID chips in the bags of food).
- Have a defined reporting system (e.g., monthly reports, which provide a summary of where goods were distributed and who were the beneficiaries).
- Ensure that warehouses are able to adequately account for their stock of food, fertilizers and seed.
- Reduce where possible the number of intermediaries

Audits / Oversight

- Include unannounced visits to project sites (e.g., schools, warehouses, distribution sites) to double-check the use of goods/assets.
- Involvement of communities in monitoring activities with pre-determined monitoring tasks (e.g., monitors check the local markets to ensure that food is not being diverted, etc.)

Procurement

Fraud and corruption in the procurement process

Procurement of goods, works, services and/or selection of consultants may be subject to fraudulent and corrupt

Prevention / Detection

- Use of independent procurement agents or international agencies such as WFP for program administration (including procurement) when

practices (e.g., bribery of Bid Evaluation Committee members to steer contract to favored bidder; collusion among bidders; bribes paid to qualify as a ration shop; procurement packages are split to avoid prior review thresholds; information about procurement opportunities is not disseminated in a timely manner to relevant potential bidders; contracts are awarded to companies with poor track record, etc.)

national systems are weak

- Train procurement staff of implementing agencies in identifying and responding to red flags of fraud and corruption as well as implementing transparent, well-documented procurement procedures.
- Hire an International Procurement Advisor to monitor the implementing agency's compliance with Bank Procurement Guidelines
- Include the World Bank's Fraud and Corruption Hotline in Instructions to Bidders
- Assist the borrower in undertaking simple due diligence of high risk bidders (e.g., checking of references; visiting the office or place of business; etc.)
- Each bidding document and financed contract to include the right to inspect/audit the bidders, suppliers, contractors, and subcontractors.
- Project staff to disclose in writing any private or public affiliations or personal interest before becoming involved in any project-related transaction or decision making.
- Ensure that there are processes in place within the implementing agency or government to undertake debarment procedures against corrupt and fraudulent entities.

Transparency / Communications

- Publicly display information on procurement procedures, schedule, prequalification criteria and list, bidding documents, contract evaluation and award information, and complaint mechanisms.
- Communications Plan to inform bidders, project staff, and general public about the Bank's and implementing agency's commitment to fight fraud and corruption.

Beneficiary / Third Party Monitoring

- Invite Civil Society Organizations to join public bid opening, contract signings and hand over ceremonies
- Involve media as a watchdog in an efforts to promptly identify problems as they arise
- Civil Society Organizations, when suitable, to be involved in several activities to monitor the procurement process (e.g., participation of community representatives as observers during the procurement process, involvement in public hearings held at local level to identify any procurement issues, serving as focal points in collecting complaints from losing bidders and others , etc.)

Bank Oversight

- Increase the percentage of post-reviews by the Bank

and include checks for indicators of fraudulent and corrupt activities

- Frontloaded supervision with a view to sending a signal of enhanced oversight and accountability to the implementing bodies

Financial Management

Internal and external controls are easily circumvented by people with discretionary power to do so or are poorly managed and therefore unable to detect any misuse of funds. (e.g., demonstration materials are not used in demonstration plots; false receipts from a supplier for goods that have not been bought; expired vaccines used in animal health and disease control programs; facilitation payments are demanded in order to pay for services rendered; individuals and/or companies involved in the supply chain intentionally shift items into specific categories to take advantage of VAT exemptions or reduced VAT rates, etc.).

Accounting / Inventory Management

- Use of computerized accounting systems, when possible, to provide for accurate and timely recording of transactions and financial reporting
- Develop inventory management for measuring goods in and out of warehouses, distribution vehicles, etc., (e.g., closely scrutinize those with access to warehouses; develop vehicle logbooks; distinguish between assets provided by different donors, especially when the same warehouse is used to store assets, etc.).

Financial Reporting / Accountability

- Implementing agencies to make public financial reports, audit reports, progress reports, status of complaints, etc. in an easy accessible form to beneficiaries, media, NGOs and other interested parties (e.g., on websites, community boards, etc.)
- Train management level staff of implementing agencies in basic financial literacy in order to read and understand financial reports
- Identify staff with discretionary powers and ensure that decision-making undertaken by such staff is checked by others
- Rotate staff in key positions to ensure transparency and accountability
- Minimize the use of cash by making payments to suppliers; beneficiaries; consultants, etc. by check or bank transfer.

Audits

- When supreme audit institutions are not functional; independent, private auditing companies can provide some assurances that internal controls work effectively.
- Ensure proper skill sets of auditors as well as effective auditing policies and procedures (e.g., auditors have experience in designing and conducting fraud audits; audit scope includes a review of specific controls to provide assurances that the project is not susceptible to the substantial fraud and corruption risks identified in the rapid appraisal; auditors report their findings in a timely manner to the Bank and/or implementing agency, etc.)
- Train Internal Audit Departments of implementing agencies

Bank Oversight

- Ensure that audit reports are accompanied by a Management Letter and that recommendations of audit reports are in fact implemented.
- Verify reports and data provided by the Borrower especially when supervision is delegated to the Borrower (e.g., consultant hired by borrower to conduct supervision can be linked to suppliers through family relations, past work experience, etc.)
- When budget support is used, the oversight mechanism should be carefully considered during negotiations especially in countries with a weak financial management system (e.g., introduce conditions that may allow the Bank to monitor – such as reports on expenditures by line item, intensified Bank supervision, beneficiary surveys conducted by local NGOs, etc. – and respond to misappropriations of funds).
- Physical inspection or engage with bilateral aid agency to undertake or finance such independent physical inspection

Annex 4: Results Framework and Monitoring

The following results framework is intended to (i) provide a basis for monitoring the results of country level programs undertaken under the GFRP umbrella, and (ii) provide a means to gather information on the progress of the broader GFRP from the various country level programs. This framework provides suggested indicators for each of the components under the GFRP which would be applicable at the country level. Country level programs under the GFRP will likely focus on one or more components of the broader GFRP agenda. The suggested indicators would need to be further refined based on the scope and specific objectives of components in country level programs. Because country level programs are not yet defined, specific baselines and targets are not specified. The selection of indicators and their target values will need to be determined based on specific country and project contexts.

GFRP Program Objectives	Outcome Indicators	Use of Outcome Information
<p>To (i) reduce the negative impact of high food prices on the lives of the poor in a timely manner, (ii) support governments in the design of sustainable policies that mitigate the adverse impacts of more volatile food prices on poverty, (iii) provide a global financing mechanism for inclusive medium-term growth in productivity and market participation in agriculture to ensure an adequate supply response for long-term improvement in food security.</p>	<ul style="list-style-type: none"> • Coherent policies/programs to tackle food price rise are developed and implemented consistent with country level action plan • Fiscal costs of these additional expenditures or revenues foregone are appropriately costed • Agreed Government-donor approach to strengthening of country food security mechanisms and donor support at country levels for food crisis response. 	<ul style="list-style-type: none"> • Reduction in price spikes and diminishing volatility of food prices for staple foods in developing countries. • In event of food price increases, countries respond consistent with plans to minimize additional volatility in markets. • Rapid mobilization of targeted assistance to most vulnerable groups in events of food price increases/shortages. • Higher domestic cereal output and/or capacity to access food from trade enhanced.

Intermediate Results	Results Indicators for Each Component	Use of Results Monitoring
I. Food price policy and market stabilization		
Component IA: Food price policy: crisis options, transitions and longer-term approaches	<ul style="list-style-type: none"> • Rapid assessments completed for countries which identifies immediate needs and broader policy strengthening opportunities • Food policies explicitly address transition from short-term emergency measures to policies which support longer term growth and poverty reduction 	<ul style="list-style-type: none"> • Reach agreement amongst Government and donors on how to ensure emergency needs do not set back progress on country's sustainable development agenda.
Component IB: Support for food market stabilization	<ul style="list-style-type: none"> • Market-based risk management approaches, transactions, or strategies are integrated into national level responses to manage price/weather volatility and vulnerability to external shocks. • Assessment of existence of appropriate regulatory/legal environments to support development of risk market completed; actions defined in assessment implemented as per action plan. 	<ul style="list-style-type: none"> • Complementary work with private sector to support risk management approaches.
II. Social Protection Actions to Ensure Food Access and Minimize the Nutritional Impact of the Crisis on the Poor and Vulnerable		
Component IIB1: Transfer Programs	<ul style="list-style-type: none"> • Targeting efficiency as measured by targeting error (% of beneficiaries reached over non-target population and % of target population not reached) • ___% of extreme poor families receiving income transfers • ___% of total transfers going to families in the bottom quintile • ___% of target population receiving cash transfers 	Degree of annual progress towards outcome indicators established at country level used to monitor and adjust programs.
Component IIB2: School Feeding	<ul style="list-style-type: none"> • ___% availability of school feeding programs in targeted areas • Increase in absolute enrollment of poor children 	Degree of annual progress towards outcome indicators established at country level used to monitor and adjust programs.
Component IIB3: Public Works	<p><i>Projects</i></p> <ul style="list-style-type: none"> • Location of projects in poor areas (correlation of projects—number and total expenditures—with incidence of poverty, number of unemployed poor, etc./within country and within provinces) <p><i>Beneficiaries</i></p> <ul style="list-style-type: none"> • Number of low income workers employed in the project (total target, gender specific target is applicable) 	Degree of annual progress towards outcome indicators established at country level used to monitor and adjust programs.

<p>Component II B4: Nutrition and Health Programs</p>	<ul style="list-style-type: none"> • ___% of Target mothers providing exclusive breastfeeding • ___% of mothers participating in education activities about complementary feeding and hygiene behaviors • ___% of Targeted pregnant women receiving fortified food and/or micronutrient supplements • ___% of targeted children population receiving Vitamin A and iron supplementation • ___% of Targeted Population with increased access to PHC services malaria treatment (where applicable) 	<p>Degree of annual progress towards outcome indicators established at country level used to monitor and adjust programs.</p>
<p>III. Enhancing Domestic Food Production and Marketing Response</p>		
<p>Component IIIA: Strengthening Agricultural Production Systems</p>	<ul style="list-style-type: none"> • ___% of targeted farmers using appropriate fertilizer/seed. • ___% improvement in water use efficiency in production of food crops in targeted areas. • ___% of farmers adopting improved technologies for food production in target areas. • ___% of farmers participating in producer organizations in targeted areas. 	<p>Degree of annual progress towards outcome indicators established at country level used to monitor and adjust programs.</p>
<p>Component IIIB: Reducing Post-Harvest and Marketing Losses</p>	<ul style="list-style-type: none"> • ___% reduction of crop losses due to poor harvest/drying and storage in targeted areas • ___% improvement in grain mill efficiencies. • Reduction of key impediments to efficient transport of food crops to market 	<p>Degree of annual progress towards outcome indicators established at country level used to monitor and adjust programs.</p>
<p>Component IIIC: Strengthening Access to Finance and Risk Management Tools</p>	<ul style="list-style-type: none"> • Commodity producers gain access to financial products that provide risk protection (price and weather risks), thereby strengthening overall credit-worthiness. • ___% of firms which use risk management instruments to reduce losses associated with inability to manage price and weather volatility. • Local banks and/or microfinance providers use risk management strategies to help reduce levels of bailout / loan -loss provisions and expand lending for agriculture. 	<p>Degree of annual progress towards outcome indicators established at country level used to monitor and adjust programs.</p>

IV. Implementation Support, Communications and Monitoring and Evaluation		
Component IVA: Project Management	<ul style="list-style-type: none"> • ___% of project reports submitted on-time at all levels • ___% of procurement which is completed within one month of plan • Regular reporting on fiduciary issues identified through regular project monitoring, internal audits, technical audits and complaints received and status of response 	Quarterly and Annual Project Reports, annual audit report and technical and internal audit reports used to focus on key fiduciary challenges and implementation constraints and develop practical strengthening measures.
Component IVB: M&E	<ul style="list-style-type: none"> • Monitoring reports completed and discussed with stakeholders with one month of completion • Evaluation reports completed and discussed with stakeholders within one month of completion 	Workshops with stakeholders to review monitoring and evaluation reports and identify lessons learned
Component IVC: Communications	<ul style="list-style-type: none"> • Communication assessment undertaken and strategy developed to ensure all stakeholders are aware of project benefits, targeting and complaints procedures • M&E includes assessment of public awareness and communications effectiveness 	<p>Improve broad public understanding of Government response, strengthen basis for social accountability for delivering support</p> <p>Manage expectation and sociopolitical risks</p> <p>Fine tuning of messages and information dissemination mechanisms</p>

Annex 5: Detailed Component Descriptions

1. This Annex gives more detailed information and examples of program components that can be financed under this facility, expanding on the descriptions in Section B4 “Program Components” in the main body. Throughout the discussion, short-term responses are construed to have a time horizon of 3-6 months, medium-term responses have a time frame of 6-12 months, and long-term responses are for 1-3 years forward. Additional guidance notes for task teams including a note on *Key Areas for Assessment of the Country’s Food Crisis Response Needs* and project document templates for different options under the Horizontal APL and DPLs will be posted on an ARD website.

2. Measures to deal with food price stabilization in the short run need to strike an appropriate balance with measures designed to ensure that countries are better able to cope in the medium run, such as actions related to improving the domestic supply response. Immediate action is needed to address hunger, but just as fundamentally short-term measures should be implemented carefully in order to avoid creating other serious problems for the next growing season. Countries also need to begin building stronger institutions and infrastructure for coping with short-term food price problems. Work on both the short- and longer-term fronts, therefore, needs to proceed in parallel, and efforts should be made to ensure that short-term responses are consistent with and contribute to proposed longer-term interventions. Setting priorities in both cases is essential. The objective is to generate benefits immediately and lay the foundation for workable longer-term solutions.

3. As specified in the main text, the program would finance a mix of technical assistance, development policy and investment lending under four components: (i) food price policy and market stabilization; (ii) social protection actions to ensure food access and minimize the nutritional impact of the crisis on the poor and vulnerable; (iii) enhancing domestic food production and marketing response (iv) implementation support, communications and monitoring and evaluation. Even though the activities are organized by sectoral components, the program calls for, and will strongly endorse integrated national responses that ensure common objectives across sectors. Regional projects in Africa and other regions will also be financed by leveraging regional IDA allocations. Regional initiatives might include collaborative actions on common regional issues such as trade, fertilizers and inputs. Since experience in dealing with the short-run price spikes under new world market conditions is evolving, and the countries affected are diverse, these components provide a comprehensive menu of likely activities to be financed. Countries can select interventions that are relevant to their individual situations from the menu of those available in the Program. Specific country programs should integrate their own design components with these activities, relying on country knowledge and emerging technical updates and design issues.

COMPONENT I. FOOD PRICE POLICY AND MARKET STABILIZATION

4. In responding to the food price crisis, governments need coherent national-level strategies, policies and risk management instruments. This component will finance technical assistance to governments who wish further evaluation of alternative responses. It would also provide technical assistance to governments for the transition from crisis responses to medium- and longer-term approaches.

5. In general, the international experience with price stabilization and food security in developing countries suggests that the optimal strategies are likely to involve market-based instruments for price stabilization combined with targeted safety nets. Such approaches would avoid the efficiency losses widely observed with regard to government management of buffer stocks and governments playing a commercial role in international trade and food distribution. A preferred approach that tends to minimize leakages, efficiency losses, and helps maintain incentives for mobilization of the private sector would be

the use of market-based instruments such as procurement by tender, open market sales, trade finance solutions, and risk management instruments such as insurance and price hedging to influence prices and trade, manage strategic grain reserves, and access the contingent financing needed to respond to shocks.

6. Nonetheless, in the current context of very high international prices, without some government intervention, poor net consumers of food may suffer severe reductions in household purchasing power, consumption and nutrition and in some cases political stability may be seriously threatened. In certain cases, therefore, well-designed short-term government interventions may be the best option for rapidly addressing the effects of high international food prices on the poor.

7. The food price policy and market stabilization component will finance the following three activities:

A1. Rapid assessment and analytical support to provide a rapid diagnostic of current market conditions, impacts of the crisis on different social groups, and policy options. Specifically, these rapid assessments will be used to: i) evaluate the current market situation, ii) analyze the main causes of market price increases (including changes in international prices, domestic production shortfalls and internal market disruptions); iii) assess the impacts of the crisis on different social groups and use participatory appraisal methods to consult vulnerable groups on their priorities for public assistance and response; iv) assess short-run policy options; v) examine possible medium-term strategies for transition from short-run policy interventions, and vi) outline the process of developing long-term measures, such as increasing domestic production and promoting market development.

A2. Design of national food policies that provide for a transition from short-term emergency measures to policies consistent with a long-run growth and poverty reduction strategy. This analysis would be tailored to the country context and would include clear specification of instruments and objectives, and investigate options for market-based and direct interventions (including public stocks, open market sales and targeted food subsidies) in the context of an overall social protection and growth strategy.

A3. Information, consultation and participatory advisory services. Effective information sharing and communications tools are critical in a crisis situation to provide countries with the space to pursue responses which effectively target the most vulnerable, and do not undermine the broader development process. There is a risk that participation may remain as a one-way information flow. To avoid this, it is important to offer channels for voice and public deliberation on the crisis – and appropriate responses. Finally, when measures are put in place to help vulnerable social groups, communication of what assistance is available, and what poor people's entitlements are is important to enable people to mobilize to make claims for assistance. Under this component, information and communication activities will be geared toward i) informing constituents about the nature and contributing factors to the crisis and managing expectations around food prices and the efforts governments are making to resolve the crisis; ii) assisting public bodies in carrying out rapid exercises in consultation about appropriate responses; and (iii) making information available to citizens on their entitlements to assistance and information.

8. An effective communication assessment and campaign builds awareness of, and trust in, a policy action and neutralizes criticism based on misconceptions. It improves the chances the reform will be completed and increases the chances that future reforms can be carried out. Communication strategies define objectives, risks, expectations, target groups, and messages that will help achieve objectives. Under the GFRP, support would be provided for designing and implementing a range of information and communication activities geared toward the general population, as well as to specific targeted

stakeholders in participating client countries. This communication will serve to inform constituents about the nature and contributing factors of the crisis and to encourage engagement and commitment to the crisis response program.

9. Activities would include developing, specifying, and testing key messages and materials to be used to disseminate information from national to regional and local levels, between the public and private sectors, and to the general public about the nature, characteristics, and potential longevity of the price shocks or availability shortfalls, and the decisions made on a particular response strategy. Audiences and stakeholder groups to be targeted for communication activities would be identified, tailored messages for various sectors based upon the opinion surveys and stakeholder analyses available would be developed, specific strategies to be utilized to communicate information would be defined, and detailed work plans for the communications activities would be formulated. As well, risks would be identified and expectations mapped so that the communication could mitigate these.

10. Communication activities would be carried out through various channels (e.g., mass media, outreach activities of ministries and sectors). In some countries, especially in Africa, community mobilization might take place through civil society institutions (e.g., religious groups or tribal leaders) that reach the local population, particularly in rural areas. In addition, support would be provided for the development and distribution of basic communication materials (such as question and answer sheets) on the nature and characteristics of the crisis, and measures adopted to address them, and other relevant topics (such as adjustments that individual households can make); information and guidelines for service providers; training modules (web-based, printed, and video); and various types of presentations. In addition, support could be provided to assess the government information structure and provide advice on more effective organization and management of communication. Support could also be provided to strengthen networks of communication offices and mechanisms to increase coordination and consistency of messages among communication managers.

11. The multi-dimensional problems associated with a food crisis necessitate the collaboration of a wide range of stakeholders within each country; this has to be supported by broad communications and information campaigns to improve public awareness. All stakeholders involved in the response process would need to know their role, and the roles of others, in task development and decision-making. While the specific stakeholder groups would need to be identified, they include various ministries (e.g. agriculture, health, commerce, finance, transport), NGOs and civil society organizations (including consumer organizations), humanitarian relief agencies, farmer organizations, agricultural service providers, private and other food companies, industry associations, and the media. It may be necessary in some cases to support the development and implementation of training courses in communications methodology for government personnel at the central and local levels.

12. To design and coordinate the above activities, support might be provided to the Communication Office of the Government to assist in the design of an integrated and comprehensive communications strategy and action plans; selection and sub-contracting of services to implement the communication interventions; training of spokespersons from priority sectors in managing the media; partnering with the electronic and print media to highlight the national response and ensure accurate reporting.

13. Thus, preparations for a communication strategy might include following components:

- an assessment of the country's media climate, the specific needs of the planned reform program, and the level of awareness and acceptance of the reform;
- a list of the main stakeholders, including government officials, parliamentarians, journalists, union members, members of professional associations, traders, more generally employees and employers in sectors affected by the reform, and members of social groups at which the interventions are directed;

- a program to develop the skills of spokespeople, opinion leaders, and champions of the proposed interventions or plan for handling the crisis by holding workshops, setting up communication units, training media advisors, training officials in strategic communication, and organizing placements and study tours to countries that have implemented similar reforms;
- a set of guidelines for the institution implementing reform on how to become user-friendly, for example, by developing newsletters and interactive Web sites.

14. The communication strategy may include:

- a mass media campaign using radio and television spots, advertisements in print media, and articles in targeted periodicals and/or press conferences;
- a program to develop media capacity on reporting on a given issue, including workshops for journalists, databases for the media, and awards for reporting;
- a program of face-to-face presentations for key groups of stakeholders ranging from seminars for legislators, speeches at conferences, and so-called town hall meetings for union members and the general public;
- an awareness program directed at potential beneficiaries through organizations they trust, such as schools, nongovernmental organizations, and local communities;
- a set of feedback mechanisms—formal and informal consultations with stakeholders, media monitoring, and focus group and opinion research—to allow adjustment of the communication strategy or reform as needed.

B. Support for Food Market Stabilization

15. Policies enacted to stabilize food prices or offset the effects of high food prices may involve additional fiscal costs (e.g. subsidized sales of imported food to lower domestic prices below import parity levels) or loss of fiscal revenues (e.g. lowering of import tariffs). In low income countries, the additional fiscal strain of these policies could seriously threaten public investments and public services needed to promote growth and poverty reduction in the medium term. To avoid major fiscal deficits that could threaten macro-stability or cuts in public expenditures that could threaten development, governments may request funding under this facility to finance short-term price stabilization programs (including market intervention policies such as open-market sales of stocks or imports). They may also request financing for programs related to introduction or expansion of food subsidies or cash transfer systems that are consistent with an overall strategy that minimizes market distortions and provides major benefits to poor households. Price volatility risk, which could increase the burden of price stabilization programs over time, can be reduced by using appropriate risk management products in the framework of the World Bank hedging product offerings. IBRD countries can choose to link debt service payments to a traded commodity price or price index. This financial option could be used to hedge the price of agricultural products as well as of “input commodities” such as chemicals used in the production of fertilizers.

16. It is anticipated that many of the requests under this sub-component would be for budget support, recognizing that budget support for policy measures will in most cases amount to only a small part of the fiscal gap attributable to rapidly rising food prices. Governments would also be able to request investment lending under this sub-component to build capacity to deal with the new demands of increasingly volatile food staple markets. This would include items such as additional personnel costs, office facilities, training, hardware, software, data access, and management systems for accomplishing the policy, information, and management tasks below.

17. The food price crisis has raised awareness of the need to develop strategies to help low income countries mitigate the impact of external shocks. Two of the most severe external shocks – commodity price and weather shocks – are particularly problematic for low income countries since they are already highly vulnerable to price and weather volatility. As illustrated by the current set of national responses, ex post policy choices for managing shocks can be costly, inefficient, and destructive to markets and trade. The alternative – ex ante risk management – can help avoid such problems, particularly when strategies are based on transferring risks to the market, for example through commodity hedging instruments and weather derivatives. Both instruments can be used by governments to secure contingent financing for responding to external shocks.

18. Lower income countries do not typically engage in pro-active risk management. The provision of international financial assistance to smooth shocks has reduced incentives for investment in ex ante measures. Low perceived payoff due to short-term political horizons and the ex-post perception of “unnecessary hedging” have also played a role in the insufficient willingness of governments to actively pursue risk management²¹. Furthermore, there is a serious market gap between the banks, insurance companies, and commodity trading companies that offer hedging products and the developing countries that need them. Lack of capacity is a serious challenge, as is a lack of financial resources to invest in customized risk assessment, product structuring, and financing of such approaches.

19. At the same time, for many countries, national estimates of food production are unreliable, leading public agencies and private traders to either over- or underestimate import needs, or make poor decisions on storage. Food balance sheets and import requirements are often determined with little or no reference to the role of informal cross-border food trade or the role local ‘food security crops’, especially root crops – again leading to poor and costly decisions. While most countries have developed some form of early warning system – linking expected and ensuing weather patterns with estimates of national production for selected crops – there remain weaknesses in the accuracy and timeliness of crop estimates, in data sharing, and in the effective utilization of estimates to inform food policy decision-making and advisory support for farmers.

20. The risk management sub-components of this overall price stabilization component will assist World Bank clients to evaluate financial exposure to price volatility associated with near-term food import costs, assess how weather risk impacts vulnerability to food price shocks, implement market solutions for mitigating the effects of near and medium-term shocks, and improve overall government-level risk management capacity. In the immediate term, it will also provide assistance to governments seeking ways to improve on and eventually exit from recently enacted policies, such as price stabilization schemes, export bans, and commitments to increasing strategic grain reserves, which will be difficult and costly to maintain over time.

21. Increased use of financial risk management instruments in the grains sector is both a relatively new and a very important part of the work proposed under this facility. Therefore the present annex will devote extra space to detailing the technical aspects of the types of financial risk management interventions proposed. The Bank Group has a strong comparative advantage in this area. A number of different units within the World Bank group are currently engaged in various activities related to risk management and can provide financing and technical assistance. These include: the Agriculture & Rural Development’s (ARD) Commodity Risk Management Group; World Bank Insurance Unit; Office of the V.P. and Treasurer’s (TREVP) Banking and Debt Management (BDM); IFC; MIGA; and the Global Index Reinsurance Facility (GIRIF) Program.

²¹Dana, J., A. De Plaa, C.J. Gilbert et al. 2006. *Enhancing IDA Countries Access to Risk Management Instruments*. Washington, DC: World Bank

B1. Tax and Trade Policies

22. Removal of export bans and taxes is a priority for restoring faith in the trading system and allowing countries to use resources to greater benefit. The GFRP facility can finance technical advice desired by clients in this area on implications of different options. Removal or reduction of tariffs on certain types of food, reduction in VAT rates or VAT exemptions on food can help reduce domestic market prices, but may result in significant loss of revenues. Likewise, lifting of an export ban could result in higher domestic prices that raise the cost of implementing food subsidy programs. Fiscal costs of these policies would be eligible for financing under this sub-component, recognizing that the financing that can be provided is likely to be only a small share of the actual fiscal cost of the crisis.

23. While reductions in tariffs and taxes are likely to provide some relief, they do have shortcomings. First, they provide only one-time relief. Once the tariff or tax has been reduced to zero, no further reductions in price can take place through this measure. Second, they entail revenue losses for the government, which in some countries could be substantial. Third, the relief they provide is available to the entire population and not only to those sections who need it the most, i.e., they are not targeted measures. These shortcomings imply that once the immediate crisis is over, the measures taken would either need to be reversed or incorporated into a systematic reform agenda.

24. Proposals to lower tariffs on food need to be considered on a case by case basis in the context of the country's overall trade regime, as in some cases the lowering of a tariff on food in isolation constitutes a tax on domestic food producers relative to production of other items, which is not desirable for a sustained supply response. On the positive side, tariff reductions may make good policy sense if tariffs unduly distort the trade regime. But if these reductions are to be made permanent, the government would need to undertake complementary reforms in the medium term. Key among these would be tax reform measures to help recoup at least part of the revenue loss. Such reforms could include introduction of broad-based consumption taxes; broadening the tax base by reducing exemptions and simplifying rate structures; and strengthening revenue administration. In addition, since tariff reductions imply a loss of protection for domestic producers, complementary measures (with credible exit strategies) may be needed to support and ease their transition to a liberalized environment. Such measures could include strengthening safety nets, public investment in rural infrastructure, improved extension services or other policies that facilitate response to the new market signals.

25. In the case of VAT, an outright exemption on selected food items is generally preferable as a short-term measure than a reduction in their rate. A rate reduction on selected items will lead to a situation of multiple rates which place a greater burden on the tax administration capacity. The tax administration burden from exemptions will generally be lower.

B2. Price Subsidies

26. Food subsidies via untargeted open market sales, subsidies on imports, ration shop sales and other measures to lower the market price for consumers can entail a substantial fiscal cost. Subsidy costs can be reduced by taking into consideration i) type of food commodity to be subsidized, ii) mechanisms to reduce leakages, and iii) exit strategies. Even if these measures are taken, however, budgetary support may be needed to offset the financial costs of these subsidies.

B3. Grain Stock Risk Management

27. Many countries maintain physical grain reserves in lesser or greater volumes. These reserves are maintained in order to service emergency relief operations, support public distribution of food to chronically food insecure populations, and reduce volatility in consumer and/or producer prices.

International experience in the management and use of so-called strategic grain reserves is mixed, with frequent concerns about operational inefficiencies, financial cost, and disincentives for private traders to perform normal arbitrage functions. Some of the problems with grain reserves can be overcome by establishing clear and open rules for market interventions, including the private sector in the tendering for supplies for the reserves, combining grain and financial reserves to reduce costs, and utilizing very professional management, supported by good information systems and analytical capacity.

28. This sub-component would support the following activities: (i) analytical work to assess alternative strategies for the size, location, and forms of strategic reserves; (ii) training and investment for the upgrading of storage practices; (iii) feasibility studies and technical assistance to expand collateral-based lending/warehouse receipts; (iv) technical assistance to improve tendering systems and rules associated with stock replacement; and (v) technical assistance and training in the use of trade finance structures to create financial grain reserves

B4. Price Risk Management

29. This sub-component would provide support to governments and major private sector entities to identify if/how market-based hedging products can be incorporated in national policies and commercial strategies, and, where feasible, to implement price hedging transactions. This sub-component would support the following activities: (i) technical assistance to quantify specific price risks faced by governments and private sector importers/distributors; (ii) assessment of the technical, operational, and commercial feasibility of mitigating price risks through transfer to the market, using financial and physical contracts; (iii) training for governments and the private sector in the use and evaluation of different hedging products and strategies; (iv) intermediation services for price hedging transactions, and (v) partial financing of premiums on option contracts to cap the cost of future food imports.

30. There are two main approaches to hedging price risk within a commodity chain. **Financial hedging products**, such as futures and options, are typically traded on established commodity exchanges. They are generally used to mitigate short-term price risks, i.e. 3-8 months forward. Over the past four years the Commodity Risk Management Group has been providing technical support to developing country market actors who wish to access the **futures** market, and commodity exchanges directly. This has proven to be extremely challenging, if not impossible. Constraints include: a) market providers (generally investment banks with commodity trading desks) are reluctant to take on credit risk with developing country clients; b) market providers find it very difficult to do business with unknown developing country clients, particularly in an environment of increasingly stringent Know-Your-Client and Anti-Money-Laundering regulation; c) developing country actors are not able to access the financing needed to support margin requirements for futures trading; d) local commodity prices are often not well-correlated to the global market prices, thus creating high levels of basis risk; and e) in low income countries the capacity to understand, structure, and implement futures hedging programs is extremely low.

31. **Option** contracts, which function as a sort of “price insurance” mechanism, are more easily accessible by developing country clients since there is no credit risk carried by the provider if the premium is paid upfront. In Tanzania, Costa Rica, and El Salvador, commodity market actors have used option contracts to help manage the risk of short-term price volatility and work on this instrument is ongoing. There are two types of option contracts: i) put options create a price floor, and thus provide protection (i.e. for producers, exporters) against the risk of prices falling, ii) call options create a price ceiling, and thus provide protection (i.e. for consumers, importers) against the risk of prices rising. On the financial market, a call option is based on underlying futures contracts. In the physical market, a call option is based on delivery of physical stocks.

32. Given the challenges associated with accessing futures markets directly, for many developing country clients, more appropriate risk management instruments can be customized using physical trading products, i.e. forward contracts, minimum-price guarantee contracts, and physical options. These transactions are called **OTC “over-the-counter” transactions** because they are customized to client needs. OTC hedging solutions are available using the financial commodity markets or the physical trade. Physical call options have been used by the Government of Malawi (Box 1) and are currently being evaluated for Haiti. This approach provides a country with upside price protection through a contract that guarantees future delivery at a price no higher than the pre-agreed ceiling price. If prices move higher during the time period of the contract, supply is assured at the pre-agreed ceiling price. If prices move down during the time period of the contract, the option has no value and the country can source the commodity through other channels, at the lower cost. While these types of contracts are generally stand-alone contracts, a coordinated mechanism for hedging future food shortage risks may also have value. The commercial feasibility of that approach has not yet been tested but is worth considering.

B5. Early Warning and Weather Risk Management for Food Crop Production

33. This sub-component would strengthen the capacity of national early warning and crop forecasting systems and support governments with transferring the risk of severe weather-related food production shocks to the international markets. This sub-component would support the following activities: (i) investment in automatic weather station infrastructure, weather data and reporting systems; (ii) capacity building in agro-meteorology, crop surveillance, and crop estimation systems; (iii) assessment of the technical, operational, and commercial feasibility of mitigating weather risks through transfer to the market, using weather-indexed insurance or derivative products; (iv) technical assistance in contract design and transaction structuring; (v) intermediation services for weather risk management, and (v) partial financing of premiums for weather risk management transactions.

34. In 1997 the first open market derivative transaction launched the birth of a formal weather risk market. Motivated by the deregulation of the energy industry, the nascent weather market responded to the need for energy companies to manage weather risk in order to increase operational efficiency, competitiveness, and shareholder value. Energy companies who wanted to protect against the risk of financial losses associated with changes in temperature which would affect demand used weather risk management contracts to manage the financial impact of a warmer than normal winter, or a cooler than normal summer.

35. Weather risk in the context of the weather market is defined as the financial exposure that an entity – an individual, government, or corporations – has to an observable weather event or to variability in a measurable weather index that causes losses to either property, budgets or profits. All weather contracts are based on observations of weather at one or more specific weather stations. In contrast to traditional insurance products, where recovery is determined on a loss-adjustment basis, weather risk management products—packaged as either (re)insurance or derivatives—are primarily settled basis an index that has been developed to measure losses. Weather-indexed risk management instruments therefore provide financial protection based on the performance of a specified weather index in relation to a specified trigger. The design of an index which correlates closely with the underlying weather impact not only streamlines traditional insurance practices but also creates opportunities to manage both catastrophic and non-catastrophic risk.

Box 1. Malawi Government Hedging of Maize Price & Supply Risks, 2005-2008

Background. In 2005/6, Southern Africa experienced a severe drought-related food shortage. Affected countries included Malawi, Zambia, Mozambique, and Zimbabwe and it was estimated that the volumes of imports needed to supply these countries would range from 1.5 – 2 million metric tons. During a food shortage maize prices typically increase, thus exacerbating the risk of hunger.

Strategy and Request for Technical Assistance. In June of 2005, the Government of Malawi announced that it would take an innovative approach to management of the food shortage by using South Africa Exchange Market (SAFEX)-based instruments to help cap the cost. In response to a direct request from Government, the World Bank provided technical assistance to support this operation. This included education on the SAFEX market in general, training on futures and options, risk assessment, exercises to structure prototype contracts, assistance in building consensus with stakeholders, discussions on funding, communication with market providers, comparison of proposals, negotiation of contracts, and overall implementation. The outcome of this technical support demonstrated that a call option was the most appropriate hedging tool.

Customization Required. Because government was concerned not only about price increases but also about logistics constraints and delivery performance, the call option contract was customized as an OTC (“over-the-counter”) contract which would give more flexibility than a standard financial instrument. First, price protection was provided on a delivered basis, thus combining the price for white maize on the exchange in South Africa (SAFEX price) plus transport costs to Malawi. Second, the option contract carefully specified terms for physical settlement so that it could be used as a contingent import strategy if needed. Uncertainty about the extent of the food shortage, levels of commercial imports, transportation constraints, performance of local traders, the humanitarian response, and efficiency of procurement processes made the contingent import aspect of the contract attractive to the Government.

Contract. In September, the Government of Malawi concluded an agreement with Standard Bank of South Africa to provide the risk management structure. The contract, an OTC call option, represented one of the first-ever instances of macro level hedging by an African government. It covered imports of 60,000 mt of white maize, had a total value of approximately \$17 million, and a premium payment of \$1.53 million. DFID provided budget support to the Government of Malawi for purchase of the contract.

Outcome. Throughout November and December, 2005 as prices were increasing and the food shortage growing more severe, Government exercised the call option, elected for physical settlement, and allocated the majority of the maize to humanitarian operations. The maize purchased through the option contract had a better delivery performance than most other procurement procedures. During the delivery period spot prices rose US\$50-90/mt above the ceiling price of the contract following increases in the SAFEX white maize price and transport costs over the period October – January. Within the region, traders and banks are supportive of this approach and believe it has a number of indirect advantages in addition to the hedging benefits. Most importantly, contingent import strategies based on call option structures help in planning because they can be put in place well ahead of eventual crises, then triggered or “called” on an as-needed basis.

In May of 2006 and 2007, when the country was facing projected maize surplus, the World Bank worked with the private sector to structure contingent export contracts, which were presented to the Government. The contingent export contracts (put options) were structured to help manage concerns about allowing exports and the risk of maize prices falling. Although the contracts were not taken up, they were useful as a demonstration of how contingent contracting could be used to help manage risk associated with surpluses. In May of 2008, the Government issued a request for proposals for a repurchase option, which will be based on a trade finance structure for grain held in the country combined with a call option. The objective of this approach is to set up a second layer of grain reserves which operates financially, through the private sector. The Bank is providing technical assistance to this activity.

36. Since inception the market has grown rapidly, with over US\$100 billion of risk transferred to date.²² It has evolved to include non-energy applications – including retail, agriculture, transport, and leisure and entertainment industries – and broadened to include transactions on non-temperature indexes, such as rainfall, wind, and snow and to cover global locations. Standardized futures and options weather derivative contracts can be traded on commodity exchanges for locations in the United States, Canada, Europe and Japan. Customized “over the counter” (OTC) derivative or (re)insurance contracts can be tailored to meet specific client needs. Risk takers selling weather risk protection to a customer either hold the risk in order to diversify a larger commercial portfolio, or sell it on to other entities in the market.

37. Recent developments in the market imply that governments can now buy customized index-based weather contracts to transfer the financial risk of severe weather that adversely impact national budgets²³. In the context of the current food price crisis, weather risk management approaches can help reduce exposure to future events which may be the result of weather-related supply shocks, leading to local and/or temporary spikes in food prices. Implementing an index-based weather risk management program for agriculture has limitations however, especially in lower income countries. One limitation is basis risk i.e. the potential mismatch between payments from the contract and the actual loss experienced. In addition, contracts generally only provide protection from one risk, for example drought risk for agricultural production, however other risks such as input availability, pests, flooding and poor management practices can also cause losses that are not covered by a drought index. Providing good training on the product, leveraging local models and expertise in index design, and positioning the product within a comprehensive government risk management program can minimize the probability and impact of a basis risk event.

38. Additionally, product options are limited to weather risks that have a covariant spatial nature, such as drought. So far, the majority of weather index insurance products in developing countries have been designed for rainfall; however such products only make sense in areas where deficit or excessive rainfall pose a large and potentially catastrophic risk to production. In some regions, farm losses often result from a complex interaction of perils—for example, increased heat that leads to pest problems—that make index-based weather risk management less suitable. In addition an important precondition for the use of index-based weather risk management instruments is adequate weather infrastructure and historical weather data. Often in lower income countries, investments are needed to clean historical weather data and upgrade weather station equipment and communication capabilities.

39. Despite the challenges, index-based weather risk management instruments have potential benefits for developing countries wishing to transfer the risk of weather-related agricultural production shocks to the market. Weather risk management approaches have the potential to create a reliable contingent financing system which would enable countries to budget based on a potential payout to an extreme weather event. Payouts from the market are efficient and timely. This approach allows countries to explore the financial advantages of leveraging limited resources by placing risk in well-diversified commercial portfolios, thus reducing Government dependence on traditional – and often unpredictable and untimely – appeals-based emergency financing.

B6. Promotion of bilateral or regional trade

40. This sub-component will finance technical assistance and investments for regional trade and transport facilitation. It could also finance activities that would accelerate on-going trade facilitation actions that would specifically improve the functioning of regional staple food and input markets.

²² Weather Risk Management Association, 2007

²³ E.g. The Government of Mexico’s drought risk management program which started in 2003 (Agroasemex, 2006) and the United Nations World Food Programme drought derivative pilot in Ethiopia in 2006 (WFP, 2005).

Assessments of technical, policy, logistical and other constraints to regional and cross-border trade in staple foods and agricultural inputs will be supported.

COMPONENT II. SOCIAL PROTECTION ACTIONS TO ENSURE FOOD ACCESS AND MINIMIZE THE NUTRITIONAL IMPACT OF THE CRISIS ON THE POOR AND VULNERABLE

41. As outlined in the main document, this GFRP component will include three levels of support to social protection reactions to the crisis: (a) Rapid response diagnostics to identify the worst affected households; to identify the existing programs which might be used to deliver support; and provide policy advice to governments on the best way to respond and the pitfalls to avoid; (b) Financing of short-term support to the most vulnerable populations through cash transfers, food stamps, in kind transfers, school feeding, workfare and programs to minimize negative nutrition and health effects of the crisis; and (c) Medium-term capacity building investment to strengthen social protection systems and better equip them to respond to such crises in the future. This Annex – which is to be used in conjunction with the main text – provides additional details and guidance to task teams on the rationale for intervention and the types of activities that can be financed under the GFRP.

1. Rationale and Target groups.

42. This component will finance transfers and capacity-building activities for social protection programs targeted on the poor and vulnerable, in order to mitigate the effects of food price rises. The supported programs should aim to sustain families' ability to afford an adequate quantity and quality of food, while also seeking to maintain effective access to health and education services for their children (which might otherwise be reduced due to the negative real income effect of the price rises) all of which collectively maximize nutrition outcomes. Preference will be given to social protection programs aimed at the very poor, particularly those most affected by the food price increase.

2. Role of social protection: providing immediate response to the food crisis

43. The overall policy response to rising food prices is multi-sectoral and should in most cases encompass several of the following areas, with the mix varying somewhat by country. In the overall mix of policies, safety nets can be effective in improving food security at the household level; transfers in their various forms can help households meet the rising cost of providing food for their families. The following type of programs will be considered for financing: targeted unconditional cash transfers, conditional cash transfers, food stamps and food rations, school feeding and public works. Though they are only one part of the full response, safety nets are at the front line of attention in the crisis because they can have such immediate impacts on the welfare of the poor or general consumer.

3. Selecting the most appropriate social protection intervention(s).

44. **Criteria.** The most appropriate program mix will vary from country to country. It should be determined following a brief diagnostic exercise to identify options for scaling up existing programs and adding new ones, bearing in mind considerations of speed, equity, cost-effectiveness and incentive compatibility.

- *Speed of response.* Time to response is a critical factor in mitigating the impact of the crisis.
- *Adequate.* The program or combination of programs should cover well the various groups in need of assistance: the chronically poor, the transient poor, those affected by crisis. Individual programs should provide full coverage and meaningful benefits to whichever subset of the population they are meant to assist.

- *Equitable.* SSN programs should treat beneficiaries in a fair and equitable way. In particular, they should aim to provide the same benefits to individuals or households who are equal in all important respects, for example, are equally poor (horizontal equity) and may provide more generous benefits to the poorest beneficiaries (vertical equity).
- *Cost-effective.* Cost-effective programs channel most program resources to their target group, that is, they have low inclusion errors. They also make the best use of the administrative resources required to implement the program in two ways. Each program should be run efficiently with the minimum resources required to achieve the impact desired, but with sufficient resources to carry out all program functions well enough to yield a sufficient impact.
- *Incentive compatible.* Safety nets can change households' behavior for better or for worse. To keep the balance of changes positive, the role of safety nets should be kept to the minimum consistent with adequate coverage.

45. **The appropriate response will differ by country.** The range of existing safety net systems among countries is very broad. Countries with well designed programs can go a long ways toward the safety net element of policy response by expanding their programs in one way or another – by increasing the benefit level, by raising the eligibility threshold, by fully funding a constrained program, or the like. In some cases the changes are ‘stroke of the pen’ actions that do not imply much change in program administration. In other cases there may be a need to increase the capacity of the program to attend to new claimants. Countries like Brazil, Mexico, South Africa, Ethiopia, Romania, Ukraine, Bulgaria, and Kirghizstan are in this position. They have programs that have good coverage of the poor already, and mechanisms that could allow new applicants into the programs with relatively minor change in rules or capacity. For the subset of these countries with relatively good fiscal capacity, the safety net part of response to rising food prices should be rather straightforward. Unfortunately many more countries have much less adequate initial safety nets. They may have systems that provide partial, fragmented or not very efficient safety nets – such as in Malawi or Haiti. In other cases there may be little or no initial safety net. In such cases adequate responses are much more constrained and likely to involve significant tradeoffs between speed of response and coverage and the other desirable features of good safety nets, especially equity, cost-effectiveness and sustainability.

46. **The appropriate response will differ over short, medium and long term.** Time constraints may entail the use of programs that might not be preferred on a longer time horizon. There is an urgency of action at present, with many countries experiencing “bread” riots or other calls for immediate action. In determining how safety nets can be scaled up quickly it is useful to review all present programs and policy options with two lenses. First TTLs should ask which programs are ‘good’ or ‘best’ according to the following criteria – which programs are appropriate, equitable, adequate, cost-effective, incentive compatible, and sustainable? Second, which programs can be quickly scaled up given administrative capacity and any specific issues with respect to the source of funding for their scale up? Also, what pitfalls should the government be encouraged to avoid (such as creating open-ended entitlements to badly targeted and fiscally unsustainable subsidies)? This is also the right time to give new priority to building a sound safety net system. Many countries are finding their policy responses constrained to second, third or fourth best choices because they do not have in place good safety net systems. Thus while they may take short-term palliative action over the first few months of the crisis, they should also consider a medium-term response of building missing safety net capacity.

47. **Selection of social safety net (SSN) intervention(s).** The most appropriate intervention will depend on country context and time frame. Available evidence suggests a ranking of these interventions, along the following lines:

- Cash programs are preferred to in-kind programs, as they have lower administrative costs. However, when local food markets do not function and food is not available, in-kind programs are preferred.

- Better targeted programs are preferred as they are more cost effective. Given the need for a fast response, governments may have first used poorly targeted programs. Attempts to improve targeting over the medium term should be considered, including all range of targeting methods (geographic, demographic, community-based, proxy-means or means testing and self-targeting through work requirement or inferior commodity).

The following table summarizes the key design features of SSN interventions, their advantages and disadvantages, appropriate context, implementation challenges during normal times, and the speed of expanding existing programs or implementing new ones.

Table 1. Guidance for selecting appropriate Social Safety Net Interventions

Types of interventions (programs)	Social protection goals	Intended beneficiaries	Advantages	Disadvantages	Appropriate context	Implementation challenges	Minimum time to set up/.expand the program
<p><i>Cash and near cash transfers</i></p> <ul style="list-style-type: none"> ○ Needs based ○ Food stamps ○ Noncontributory pensions ○ Family allowances 	<ul style="list-style-type: none"> ● Mitigating poverty and promoting equity ● Managing shocks ● Facilitating reforms 	<ul style="list-style-type: none"> ● Chronically poor working families ● Those not expected to work: children, the elderly, the disabled ● Those needing temporary assistance 	<ul style="list-style-type: none"> ● Have lower administrative costs than many other programs ● Do not distort prices ● Transfers can directly meet critical household needs ● Benefits can be differentiated by level of need, household size or composition, etc. 	<ul style="list-style-type: none"> ● Targeting methods can be information intensive ● Transfers are fungible, therefore subject to unintended household uses 	<ul style="list-style-type: none"> ● When essential commodities are available ● When consumers can purchase food in the market 	<ul style="list-style-type: none"> -Defining clear objectives and benefit levels - Reaching the intended beneficiaries - Distributing benefits reliably and efficiently 	<p>Time to set up: Depends on the accuracy of targeting. Two-three months minimum.</p> <p>Time to expand: To increase the payment, 1 payment cycle; to expand the set of beneficiaries, 1-2 months.</p>
<p><i>In-kind food transfers and other food-based programs</i></p> <ul style="list-style-type: none"> ○ Quantity rations and in-kind transfers ○ Supplemental feeding and nutrition ○ School feeding ○ Emergency food distribution 	<ul style="list-style-type: none"> ● Mitigating poverty and promoting equity ● Managing shocks ● Investing in human capital and nutrition ● Facilitating reforms 	<ul style="list-style-type: none"> ● Chronically poor people who cannot afford to buy the food they need to improve their nutritional status ● Those not expected to work: the elderly; the disabled; children in school; and malnourished, 	<ul style="list-style-type: none"> ● Can be effective in alleviating hunger ● Can increase school attendance by poor children 	<ul style="list-style-type: none"> ● Storage and transport of food adds a large element to administrative costs ● Beneficiary group is limited ● Substantial errors of inclusion may occur depending on the targeting method ● Often biased to urban populations ● On-site feeding adds to 	<ul style="list-style-type: none"> ● When food aid is available but cash assistance is not or when the government needs to rotate strategic food grain stocks ● When prices are too high because of a lack of or inefficient markets ● When programs do not have a negative impact on markets 	<ul style="list-style-type: none"> - Organizing efficient transport, storage, and distribution of food - Selecting commodities - Reaching needy mothers and children 	<p>Time to set up: A few weeks, but lack of food availability may lengthen the delivery time. The faster the intervention, the poorer the targeting tends to be.</p> <p>Time to expand: A few days minimum (pending food availability).</p>

Types of interventions (programs)	Social protection goals	Intended beneficiaries	Advantages	Disadvantages	Appropriate context	Implementation challenges	Minimum time to set up/.expand the program
		<p>pregnant and lactating mothers</p> <ul style="list-style-type: none"> • Those needing temporary relief, refugees, the displaced 		<p>administrative costs for programs and transaction costs for participants</p>	<ul style="list-style-type: none"> • When nutrition interventions are needed to protect food-insecure people 		
<p><i>General price subsidies</i></p> <ul style="list-style-type: none"> ○ Price support for food ○ Subsidized sales of food ○ Subsidies for energy 	<ul style="list-style-type: none"> • Mitigating poverty and promoting equity 	<p>Chronically poor and transient poor families both working and not working</p>	<ul style="list-style-type: none"> • Potentially low administrative costs depending on the delivery mechanism • Can be implemented or expanded quickly after the onset of a crisis if appropriate marketing structures exist 	<p>High errors of inclusion to the nonpoor depending on commodity consumption patterns</p> <ul style="list-style-type: none"> • Often biased to urban populations • Distort commodity prices and use • Expensive and difficult to remove once established because of pressures by interest groups 	<p>When prices of essential commodities are too high</p> <ul style="list-style-type: none"> • When used in conjunction with a defined time period 	<ul style="list-style-type: none"> - Targeting poor populations using inferior commodities - Maintaining a reasonable budget 	<p>Subsidies and market interventions will take a few weeks to have an impact on consumer prices.</p>
<p><i>Public works</i></p> <ul style="list-style-type: none"> ○ Usually labor-intensive infrastructure development projects 	<ul style="list-style-type: none"> • Mitigating poverty and promoting equity • Managing shocks 	<p>Chronically poor unemployed at the margins of the labor market</p> <ul style="list-style-type: none"> • Transient poor, short-term unemployed, and seasonal workers 	<ul style="list-style-type: none"> • Needed infrastructure is created or maintained • Self-targeting can be effective if the wage rate is low enough • Additional risk management benefits can accrue if the program is set up 	<ul style="list-style-type: none"> • Administratively demanding. • Trade-off between infrastructure development and poverty alleviation objectives • The ratio of net transfers to total costs is low because of the 	<ul style="list-style-type: none"> • When unemployment is high after the collapse of the labor market in case of a crisis or disaster • When seasonal unemployment is high • When addressing individual unemployment in 	<ul style="list-style-type: none"> - Reaching the poorest households by self-targeting, for example, by setting the correct wage rate - Building useful infrastructure at efficient cost using as many people as possible - Keeping beneficiaries' 	<p>Time to set up: Three to six months. Time to expand: One to two months.</p>

Types of interventions (programs)	Social protection goals	Intended beneficiaries	Advantages	Disadvantages	Appropriate context	Implementation challenges	Minimum time to set up/.expand the program
			with an employment guarantee <ul style="list-style-type: none"> Politically popular because labor disincentives can be avoided and beneficiaries can maintain the “dignity of work” 	share of nonwage inputs and because of foregone earnings	the absence of unemployment insurance	transaction costs low <ul style="list-style-type: none"> Avoiding leakages of funds 	
<i>Conditional cash transfers</i> <ul style="list-style-type: none"> Targeted transfers conditional on school attendance or preventative health care 	<ul style="list-style-type: none"> Mitigating poverty and promoting equity Investing in human capital and nutrition Facilitating reforms 	Chronically poor and vulnerable poor families with low level of human capital, especially children and mothers	<ul style="list-style-type: none"> Supports incomes of the poor Can improve school attendance and/or health care use 	<ul style="list-style-type: none"> Effectiveness influenced by existing education and health infrastructure Administratively demanding because of the need for sophisticated targeting and for monitoring compliance 	<ul style="list-style-type: none"> When clear human capital targets are to be achieved When health and education services are available When the administrative constraints are not too big 	Disbursement (same as cash) <ul style="list-style-type: none"> Having a clear role within social policy Selecting conditions Verifying compliance with conditions 	Time to set up: Assuming that the supply side is sufficiently endowed, 9-12 months. Time to expand: To increase the payment, 1 payment cycle; to expand the set of beneficiaries, 1-2 months.

Types of interventions (programs)	Social protection goals	Intended beneficiaries	Advantages	Disadvantages	Appropriate context	Implementation challenges	Minimum time to set up/.expand the program
<i>Fee waivers, exemptions, and scholarships</i> <ul style="list-style-type: none"> ○ Health fees ○ School fees ○ Scholarships 	<ul style="list-style-type: none"> • Mitigating poverty and promoting equity • Investing in human capital and nutrition • Facilitating reform 	<ul style="list-style-type: none"> • Chronically poor and vulnerable poor families with low level of human capital who cannot afford the cost of health and education • Poor students that would otherwise drop out of school 	<ul style="list-style-type: none"> • May promote human capital development 	<ul style="list-style-type: none"> • Administratively complex and to be managed directly by health or education facilities • Effectiveness influenced by the existing education and health infrastructure 	<ul style="list-style-type: none"> • When social services are provided for a fee and may exclude the poor • When health and education services are available • When providers have access to alternative sources of revenue 	Defining the criteria for granting waivers <ul style="list-style-type: none"> - Having good information systems in place - Ensuring good implementation by providers and administrators - Having funds available 	

4. Type of social protection, nutrition and health interventions eligible for financing under Component II.B

B1. Transfer Programs

Targeted Cash Transfers

48. Cash transfers targeted on the poorest and most vulnerable parts of the population – but not necessarily conditioned on any particular behavior — are a mainstay of poverty alleviation. They can be targeted based on various poverty indicators. Moreover, they can be delivered to specific groups that may be unable to participate in other poverty programs that require a labor contribution such as the elderly or families with disabilities. Similarly, targeted cash transfers can include poor households in a setting where it is too costly to condition transfers on investments in human capital or where the capacity for monitoring such behaviors is lacking. Targeted cash transfers may be particularly suited to address food security since there is evidence from both developed and developing countries that these programs can motivate caregivers to invest more in children than they do with equivalent income from other sources. This tendency may be enhanced in programs that deliver transfers directly to female members of a household. Where a transfer program is already in place and deemed to be functioning as designed, the GFRP can assist in revising transfers to meet current needs of beneficiaries and to adapt to the cost of food purchases. Where such programs are not currently in place the GFRP may support data analysis to determine the groups that are most stressed by the current food price rise and to determine what correlates of need can be used for targeting. The GRFP may also assist countries in undertaking the implementation of the targeting procedures and registration of households. Similarly, the program can support the capacity necessary to track payments both in terms of training staff and in creating management software. Actual transfers may utilize banking and postal systems where these have wide coverage, although in many low income environments it may be necessary to create a program-specific delivery system with program support.

Conditional Cash Transfers

49. Conditional cash transfers (CCT) are programs that require a particular behavior – usually related to health or education – as a condition for receiving a cash or in-kind transfer. As such, they aim to both increase equity as well as to promote human capital investments. This linkage is the essential characteristic of the programs. They may, in some contexts, be among the most effective programs for increasing service utilization. However, even when there are other effective health or education investments available, CCTs may be justified in that they are seen as adding an investment dimension to transfer programs, that, in general, would otherwise be primarily a means of increasing consumption by the poor. That is, once a government has opted for a transfer program there is value added if that program can be made conditional. As such, CCT programs add a long-term investment dimension to short-term assistance. CCTs take this approach one step further in that they reduce the administrative burden of handling commodities; where banking or postal and in principal, phone infrastructure is available shifting to cash transfers may achieve considerable efficiency gains.

50. *General features of CCTs.* Once a decision is made on what behaviors to encourage with a CCT there are five further steps common to conditional transfer programs whether they are conditional on participating in a range of health-seeking behaviors or on educational activities. These are:

- Selection of beneficiaries (targeting; determination of eligibility)
- Maintaining or enhancing the supply of services to match the expected increased demand
- Monitoring compliance with the conditions

- Establishing a means of delivering the transfer (typically cash, occasionally including in-kind distribution and voucher redemption)
- Monitoring and evaluating overall program effectiveness *and* utilizing such information to improve the program.

51. The initial costs for setting up such programmatic infrastructure are considerable, relative to funds transferred. However, once set up, such programs can address chronic poverty and with some additional measures they can be adapted to address climatic shocks in a counter-cyclical program.

Food Stamps and Rations

52. Food stamps are often considered quasi-cash. They have the advantage of not distorting markets as well as the corresponding disadvantage that a redemption system must be created to be able to utilize stamps or coupons in these markets. However, recent developments in information technology and smart cards have sharply reduced this disadvantage and, at the same time, improved monitoring and governance. Experimental evidence has shown that food stamps are likely to encourage expenditures on food even when the value of the stamps is less than the recipients had originally spent on food.

53. Food rations also tend to be partial, that is, less than a household's total food budget and, thus, affect the amount of food purchased by supplementing income rather than through price effects. Distribution may be through licensed private retailers or through government channels. With the exception of extreme situations where commodities are available only through a ration with no private trade permitted, targeted food distribution systems set up parallel markets and two tier pricings regimes that entail incentives for diversion of subsidized goods to the higher priced open market. Various types of smart cards have been used to improve monitoring and reduce such diversions. Where there is extensive government and donor experience in emergency response and where rural markets are rudimentary, in-kind delivery may be set up quicker than the corresponding establishment of cash or voucher programs, although such delivery generally involves considerable transportation cost.

54. As with any transfer program, both ration and food stamp programs involve initial analysis of needs and targeting criteria with no intrinsic advantage in this step for any delivery mechanism over another. Both types of support require investments in monitoring in keeping with the distribution mode; increasingly these investments overlap using common information technology. Additionally, while in-kind and coupon programs differ in the interface of the beneficiary and retail distribution, in both cases the GFRP can support the necessary infrastructure and financing for these transfer programs.

B2. School Feeding

55. The GFRP will finance school feeding programs for snacks or meals for students or take home rations. Eligible costs include: food, storage transport, program staff, complementary inputs such as fuel or power, micro-nutrient supplements and fortificants and de-worming treatments delivered in conjunction with the school feeding program. Additionally, the GFRP can support targeting assessment to assist the sustainability of such programs.

56. School feeding programs have their strongest effects on education and in addressing social vulnerability; specific nutritional interventions should be targeted to children under 24 months. School feeding programs exist in all high income countries, are only exceptionally absent from middle income countries, and are present, typically with WFP support, in 71 of 108 low/lower middle income countries. Existing programs provide a potential point of entry to the community: they are politically popular, they exist in many countries and where there is no good cash transfer program can be a starting point for rapid response. Conversely, disruption of existing programs has almost immediate negative social

consequences, especially for girls, removing children from the school environment and enhancing vulnerability.

57. In addition to the traditional school meal there are approaches, such as take-home rations and high energy snacks that address specific local needs and fit local implementation contexts. Take-home rations function like CCTs, and may be preferred to cash where food aid is available and food particularly valued due to high food insecurity. Some have demonstrated similarly good impacts on poverty and education enrollment/attendance, especially for girls. In-school meals and snacks require more inputs but not only increase enrollment and keep children in school, particularly where schools are far from home, enhancing social cohesion, but also enhance cognition and learning, increasing the return on the education investment. The nutritional and cognitive benefits of these interventions can be improved at marginal cost by combining them with micronutrient supplementation/fortification and deworming.

58. In low income countries school feeding programs have similar per capita costs to basic education programs, the proportionate cost declining significantly as GDP rises. Reducing per capita costs by targeting is challenging and may be politically sensitive but has been successful in several countries: some have managed to provide the same lunches to all using differential cost recovery while minimizing stigma (eg Chile, Jamaica), while others have successfully reduced costs and enhanced effectiveness by targeting vulnerable regions (eg Madagascar, Panama).

B3. Public Works

61. Public work programs can provide income support to household with labor availability. Often, but not always, these can be self-targeted with the wage rate set slightly below a market clearing wage to avoid distorting private employment and to select the beneficiaries without the need of an administrative screening mechanism. This approach also allows a household to enter or exit according to seasonal labor demand but requires a flexible budget as well as a shelf of projects to meet local demand for work. A variation of self targeting has been used in Argentina in which a transfer was provided in exchange for meeting a work requirement of 20 hours a week in community work or training since fully employed individuals would be unlikely to meet this requirement. Public works programs can also create public assets thus contributing to long run productivity gains. Less commonly, public works provide training to enhance future employment prospects but there is generally a trade off between the objective of providing widespread income support and that of providing training.

62. Existing public programs can respond to changes in the price of food both by scaling up coverage and by adapting wages to changes in the cost of living. Since analysis has shown that even though market wages respond to changes in food prices they do so with extensive lags, such wage revision may provide a market signaling function. The GFRP can assist in this adjustment by supporting the analysis of labor markets, a step which is also necessary for initiating a new program. However, the main form of assistance for new programs is to enhance their productivity by creating capacity for project design to meet local needs – ideally with participatory planning. Experience has shown that this capacity is one key to meaningful asset creation. Moreover, in addition to supporting wages, the GFRP can finance the purchase of non-wage components of projects. As these are typically half of the costs of investments in the most effective public work projects, a substantial capacity investment for procurement systems that provide decentralized purchases is often another key component of productive public works programs.

B4. Nutrition and Health Programs

63. Undernutrition and micronutrient deficiencies contribute substantially to the global burden of disease. Impoverished communities experience high rates of undernutrition and increased exposure to infectious diseases caused by crowding and inadequate sanitation. Women of reproductive age and children experience devastating health consequences as a result of limited resources, cultural influences,

and biological vulnerabilities. Undernutrition and infectious diseases exist in a baleful synergy: undernutrition reduces immunological capacity to defend against diseases, and diseases deplete and deprive the body of essential nutrients. Undernutrition and infectious diseases further exacerbate poverty through lost wages, increased health costs, and more damaging, impaired intellectual development that can significantly reduce earning potential and compromise human capital.

64. Building an effective and sustainable national public health response to mitigate the negative health and nutrition impact of the emerging food crisis in the world on vulnerable population groups, particularly women and children under 2 years of age, would require the sequencing of actions and investments over the short and medium terms. As malnutrition is fundamentally a manifestation of a larger syndrome, due to multiple causes (low incomes associated with high unemployment, underemployment, or low wages; food system deficiencies such as high or volatile prices; sociocultural beliefs that influence nutritional habits; and unfavorable health environments), the GFRP support would be provided in the short term to strengthen the coverage and delivery of existing maternal and child health and nutrition services at the primary health care level, while other related GFRP subcomponents would assist in establishing and/or further developing targeted approaches such as a conditional cash transfer scheme in the medium term to provide income support for food purchases to targeted beneficiary families who would be required to take up these services.

Short-term response interventions: strengthening the coverage and delivery of existing maternal and child health and nutrition services at the primary health care level.

65. Nutrition interventions to be financed under the program would be an integral part of the basic primary health care package to be provided in health facilities. The integration of health and nutrition interventions for groups at highest risk is a cost-effective approach for addressing the twin problems of poor health and malnutrition among children and pregnant and lactating mothers because children who are born malnourished are more susceptible to childhood illnesses like measles, whooping cough, respiratory infections, and diarrheal disorders. The aim of the support provided under this subcomponent would be to help prevent malnutrition and improve the overall nutritional status of pregnant and breastfeeding women, and children under the age of 2, by supporting:

(a) Nutrition education and growth promotion.

66. The objective of this activity would be to improve nutritional practices among the general population, particularly changing behaviors with respect to breastfeeding and infant feeding, including complementary feeding when breastfeeding alone is no longer sufficient to meet nutritional requirements, dietary quality, hygiene, and child care. To this end, the program would first fund training programs for health personnel so that they would become effective disseminators of nutritional messages. Once trained, health workers would provide nutritional counseling as part of routine health care to be offered at local health service area facilities and at the community and household levels. Second, the program would support the development of nutrition-related messages and materials, including mass media campaigns using both public and private sector channels and approaches. Included among the themes of this strategy would be information on appropriate breastfeeding and infant feeding, targeting both health personnel and the general population, dietary quality, and hygiene (e.g., hand-washing interventions can reduce the risk of diarrheal diseases by about 45%). Communication on health and nutrition will enhance any food security measures undertaken. The program, therefore, would offer support to train and strengthen the capability of staff working in primary health care settings and community settings for growth monitoring and counseling to these target populations. In addition, support may be provided to finance the procurement of scales and measuring tapes, as well as the design and the production of growth cards for children and pregnant women. The new WHO growth standards (2007) should be used to detect malnutrition among children under the age of 2 years (defined by weight gain or lack thereof), and to

identify malnutrition among pregnant women (e.g., women with weight-for-height under 95% of standard weight at the beginning of the pregnancy and less than 120% of standard weight at the end of the pregnancy). These efforts at growth promotion will be carefully linked to health referral when necessary so that children whose growth is faltering are referred to primary health care facilities and community based therapeutic feeding as needed.

(b). Provision of food supplements, nutrition recuperation for severely malnourished children, and micronutrients.

67. Support would be provided to develop and/or strengthen food supplementation schemes that target the poorer segments of the population who are at most risk of malnutrition, including improved program planning, mobilization and training of health staff and community members, and measures to address bottlenecks hindering supplementation efforts. Programs would be linked to basic health service provision - participants in the food supplementation scheme would receive other health services, such as immunizations, early detection and treatment of diseases, and health and nutrition education. Beneficiaries would be children between the ages of 6 and 24 months as well as pregnant and lactating women. Food supplements would also be provided to HIV/AIDS infected persons who are receiving treatment with anti-retroviral drugs (ARV). The program would also support the distribution of micronutrients, including iron and folic acid, and support interventions to address iodine- and Vitamin A deficiencies, as well as zinc deficiency. Support would be provided to monitor and evaluate the impact of this food supplementation scheme on the nutritional status of the beneficiary population (height, weight and anemia status) and on health service utilization, as to monitor options for adjusting the supplement package based on the results achieved.

(c). Prevention and control of waterborne and acute respiratory diseases, and malaria.

68. The program would support training of families on adequate hygiene practices, organize and/or strengthen oral rehydration units at the community and health facility levels, training of health workers on how to diagnose and treat effectively a child suffering from acute diarrhea and acute respiratory diseases, either at home or at a health center depending on the degree of severity, mass communication campaigns on oral rehydration to contribute to reduce acute diarrhea, and vaccination programs, including strengthening the cold chain. Support would also be provided to include zinc in ORS packets to reduce the severity of diarrhea. Support would also be provided for the distribution of insecticide-treated bed nets to prevent the clinical episodes of malaria and decrease the prevalence of anemia in children.

COMPONENT III: ENHANCING DOMESTIC FOOD PRODUCTION & MARKETING RESPONSE

69. The rationale to include an accelerated domestic food production and marketing response as part of the overall emergency Program is based on the following considerations: First, in view of the existing low levels of global food grain stocks, food availability once again becomes an issue in addition to food distribution, which has been the primary concern for over twenty years. Global food grain consumption has exceeded global food grain production for each of the past six years. Consequently, increased supply—in a broad range of countries-- needs to be a necessary element of the emergency response. Second, the very significant rise in fertilizer prices, surpassing increases in food grain prices by a factor of two, together with continued increases in fuel costs, has the potential to weaken farmer incentives to expand food output, despite the sharp increase in staple food prices.

70. Third, the low level of global food stocks substantially increases the potential adverse consequences from national supply shortfalls, perhaps as a result of adverse weather events, for the forthcoming two or three cropping cycles. Consequently, the pay-off from an accelerated supply response can be high—for meeting domestic demand and, in some cases, for also servicing regional demand. At the same time, measures can be taken to reduce farmer and supply chain vulnerability to weather-related supply shocks. These considerations are especially pertinent for Africa where the vast majority of food grains are grown under rain-fed conditions. Fourth, recent measures by grain surplus countries to restrict or ban food exports have painfully exposed deficit countries to the risks and difficulties of relying heavily upon international grain markets to meet their needs, on a timely basis. Rising oil prices have also tacked on additional costs to food imports.

71. While the policy objective in the face of these immediate problems should not be one of national food self-sufficiency, part of the emergency response should involve measures to improve domestic agricultural productivity and supply chain efficiency, in a sustainable manner, and take advantage of the prevailing price incentives to promote an immediate supply response. Care should be taken that short-term measures, to promote a rapid supply response, neither undermine longer term food and input market development nor involve an unsustainable budgetary burden on governments. To ensure an effective yet sustainable response, the Program will support measures geared toward: (i) strengthening agricultural production responses; (ii) reducing post-harvest and marketing losses; and (iii) strengthening access to finance and risk management. Implementation of technical assistance and investments under these subcomponents will enable client countries to achieve notable progress, both in the very short-term and within the span of 2 to 3 years---a period in which world food prices are expected to exhibit high volatility and remain well above the levels that prevailed in the early to mid-2000s. Although most of the demand for support measures to increase domestic production and marketing efficiency is expected to come from traditionally food deficit countries, the Program could also potentially support other countries, provided that the trade policies of these countries facilitate an expansion of regional and global trade.

A. Strengthening Agricultural Production Systems

A1. Improving smallholder access to seed and fertilizer

72. Competitive markets for agricultural inputs are critical to agricultural development. Experience shows the critical importance of a suitable policy and regulatory environment, strong linkages with national research and advisory services, and investment by the private sector in production and distribution systems and facilities. While the development of efficient agricultural input markets is a long-term process, this sub-component would provide rapid support to clients facing immediate and near-term constraints related to seed and fertilizer availability, distribution, affordability, and utilization. The supported interventions will, however, be framed in the context of developing more viable and sustainable input supply systems whose design comports with sustainable development and suitable environmental and social protection. This sub-component would provide finance and technical assistance: (i) to reform laws and regulations which inhibit the development of agricultural input markets; (ii) to develop or scale up voucher and supplier credit schemes, based on ‘smart subsidy’ and other principles (see Box 2 below); (iii) for investments and training to strengthen existing systems for seed and fertilizer quality control; (iv) for investments to upgrade/rehabilitate seed multiplication and distribution facilities, and (v) for fertilizer imports through revolving fund or other financially sound mechanisms.

Box 2: Input Subsidies: Toward a “Market Smart” Approach

Low use of improved seed and fertilizer is one of the major constraints on increasing agricultural productivity in many low income countries. Many countries have employed input subsidies at one time or another, either geared toward reducing the costs of input production and distribution operations or directly reducing the prices paid by farmers. The experiences of direct price subsidies for seed and fertilizer have been mixed, although in most cases the costs of the subsidies have proven to be high and unsustainable, while the relatively modest benefits have tended to be captured primarily by larger farmers. Despite this record, input subsidies have continued to garner strong support—both from farmers and governments—as a means of encouraging technology adoption, overcoming existing market weaknesses, and supporting an important constituency. Input subsidies have also been used as a social welfare instrument, although alternative safety net approaches are generally more cost-effective.

In recent years, several countries have altered their approach to input subsidies, to define their role within broader productivity enhancement strategies and to position them as temporary interventions that support (rather than substitute for) private investment in input production and distribution. To be “market smart”, input subsidies: (i) should be targeted at poor farmers to encourage incremental input use by those who would not otherwise use them, (ii) should not displace existing commercial sales, (iii) should utilize vouchers, matching grants or other instruments and utilize (and strengthen) existing private distribution systems, and (iv) be introduced for a limited period, with a clear schedule for phasing out once their purpose has been achieved.

Targeting the poor may be politically difficult, although some success has been achieved with self-targeting arrangements, by limiting vouchers to only very small quantities and/or distributing vouchers only to those who participate in public works programs. “Market smart” subsidy programs also work to develop agricultural input supply chains, say through the training of retailer ‘agro-dealers’ and including certified agro-dealers in credit guarantee and other programs. They also closely monitor the technical and economic efficiency of new/expanded input use and include advisory services to achieve improvements in these areas.

Input subsidies should also be ‘fiscally smart’, capped as a modest proportion of the Ministry of Agriculture budget as otherwise such expenditures will crowd out other important areas of public investment in agriculture. In the past, some input subsidy programs have absorbed 50-75% of MOA budgets, compromising long-term investments.

A2. Livestock management for vulnerable households

73. The program would provide for short-term mitigation and adaptation measures by farmers and herders in a wide range of agro-ecological zones, would be integrated with overall national policies for food and grain security while considering the significance of consumption competition related to grains for animal feeds and the complex dynamic amongst livestock keeping, family health and nutrition, livelihoods and poverty reduction that has been compromised by the current global food and feed crisis. This would build on existing national livestock programs and encompass the most immediate needs through short-term interventions while nominally contributing to consultations on a more sustainable long-term livestock development plan to prepare for future catastrophes. Under this sub-component, support would be provided for: (i) de-stocking and restocking to compensate for losses, (ii) emergency provision of feeds and fodder, marketing of animals and animal products and immediate relief for the

more vulnerable livestock producers, (iii) animal health and disease control programs targeting the most vulnerable, (iv) communication and training activities to mitigate risks and activate an immediate response to protect vulnerable livelihoods, (v) essential infrastructure such as watering points, housing, irrigation, small-scale slaughter facilities, market infrastructure; (vi) financial services such as credit, insurance schemes and compensation funds to protect livestock investments; and (v) analytical work for the development of medium-term strategies for the sustainability and management of rangelands and pastures.

A3. Rehabilitation of small-scale irrigation

74. Water availability is a must for any rapid increases in productivity to take place, plus water is a critical basis for livelihoods of rural communities. Investments in irrigation and drainage have traditionally been the largest sub-sector of World Bank agricultural lending and, over the years, a broad range of lessons have been learned and good practices replicated in relation to technical, institutional, and economic matters. Under this emergency response program, it is not anticipated that investment support would be provided for new irrigation schemes, as this would be supported under the Bank's regular lending program. Rather, this sub-component would: (i) support quick turnaround physical investments in rehabilitation of existing irrigation (small-scale) schemes; (ii) finance investments in rehabilitation or development of field drainage and collector drains to reduce problems of water-logging and soil salinity (iii) finance training for water user groups and others on operation and maintenance of investments; (iv) finance assessments of groundwater or surface water hydrology and sustainable water use; and (v) finance feasibility studies for medium-term irrigation investments.

A4. Strengthening farmer access to critical information

75. This sub-component would finance a variety of activities related to on-farm knowledge and equitable and timely access to information. Eligible activities would include (i) dissemination of site-specific technologies through demonstration plots, on-farm soil testing and input trials, and other means; (ii) capacity building of existing extension providers (public, private or NGO) and producer organizations, where there are directed programs related to household food security, food staple production, and other pertinent topics; (iii) strengthening programs of market-oriented business advisory services, linking producers to input and product markets; (iv) strengthening systems for providing farmer access weather forecasts and related recommendations; and (v) finance information and communications technology (ICT) applications for agricultural advisory services and farmer communication.

B. Reducing Post-Harvest and Marketing Losses

76. In many developing countries, the performance of staple food markets is hampered by high marketing costs caused by poor handling and storage and high transportation costs in procurement and distribution operations. High marketing costs not only reduce the farmers' share of prices paid by consumers, but also contribute to the higher levels and volatility of food prices. Post harvest losses for cereal crops in most developing countries have been conservatively estimated at 10-15% of production, and when combined with quality deterioration on farms, in local storage and in the milling process, can account for upwards of 25% of crop production. This results in reduced income and own subsistence capacity for farmers, financial losses for firms, and reduced (aggregate) availability of food, at community and national levels. This sub-component would support an accelerated uptake of readily available technologies for staple crop drying, storage, treatment, and milling at farm, community and small/medium enterprise levels, and the maintenance and rehabilitation of selected transport infrastructure. It would also support upgrades in existing food grain quality control and related food safety surveillance systems.

77. Public support for private investment in grain storage and marketing infrastructure, and public investment in transport infrastructure and food quality and safety systems are recognized as being fundamental to the longer term development of efficient food markets, yet investments in these areas could also prove critical for an efficient and effective response to the current food (price and insecurity) crisis. Support will be based on rapid assessments of current post-harvest and supply chain practices and the state of pertinent facilities and transport infrastructure. These rapid assessments will identify significant bottlenecks, estimate pertinent (physical and financial) losses, highlight pertinent (technical, financial, policy, and other) constraints, and identify opportunities for quick improvements.

78. Subsequent support could take various forms, including: (i) training and demonstration of low cost on-farm storage technologies; (ii) technical assistance, training and investment support for community-level ‘food banks’ ; (iii) training and facilitation of investment by grain traders and millers in drying, sorting, and fumigation equipment and upgrades in existing storage facilities; (iv) rehabilitation of rural roads and bridges where deficiencies in such transport infrastructure are shown to substantially contribute to staple food product/quality losses; and (v) training, technical assistance, and supplemental equipment to strengthen existing food grain quality control inspectorate services and food safety surveillance systems. Also eligible would be support to strengthen and rehabilitate facilities and equipment used for food handling and storage at ports or other entry/exit points.

79. The financing of community based infrastructure and facilities is expected to be provided primarily through supplements, as needed, to existing CDD-type programs with additional technical support. Financing of individual farm enterprise and processor facilities will work through existing, sustainable rural financing mechanisms including rural banking, credit and savings groups, supplier financing and through partnerships with, for example, IFC, working with producer organizations and/or larger processing/trading companies..

C. Strengthening Access to Finance and Risk Management Tools

80. Lack of access to finance, insurance, and other risk management tools for farmers, input suppliers, and market intermediaries poses serious constraints on agricultural productivity, investment and marketing system efficiency. Constrained access to finance limits farmer uptake of improved technologies, SME investment in post-harvest and processing facilities, and the scale and scope of market intermediary activity. Farmers, agro-enterprises, and financial institutions in developing countries are especially vulnerable to weather and price shocks and often lack to capacity to effectively manage such risks. This sub-component would strengthen farmer and agro-enterprise access to finance—where viable institutional structures already exist—and provide training and technical assistance to enable farmer organizations, marketing enterprises, and financial institutions to implement selected financial tools for managing commodity price and weather-related risks.

81. The experience with public interventions in agricultural credit, insurance, and other forms of risk management is mixed. In many cases, credit and insurance subsidies, state-owned agricultural banks, and price stabilization schemes have proven to be financially unsustainable. Market-based approaches can improve access to agricultural finance and enable farmers and firms to mitigate and/or transfer production- and price-related risks with greater efficiency. Indeed, there are positive sustained examples where state-owned agricultural banks have employed a commercial approach to the provision of credit (e.g. BAAC in Thailand and BRI in Indonesia). Collateral-based lending is widely applied, for example, for grains in South Africa and, for cash crops, in parts of East Africa. Innovative approaches to crop and livestock insurance are being applied and scaled up in several countries, with examples of ‘good practice’—in terms of product design, farmer outreach, institutional development, and public-private collaboration emerging in several countries (e.g. India, Mongolia, Nicaragua, Malawi, and Thailand).

82. This subcomponent would support: (i) credit lines for financing agriculture in those countries where there are suitable institutions yet liquidity constraints for rural lending; (ii) technical assistance to strengthen the capacities of financial institutions to increase rural outreach and manage credit and non-credit risks; (iii) the development of legal/regulatory frameworks and provision of credit lines and technical assistance to facilitate supply chain finance; (iv) technical assistance and capacity building for the scaling up of community-based financial institutions and cooperatives; (v) feasibility studies and training to enable farmer organizations, market intermediaries, and financial institutions to utilize selected physical or financial (hedging) strategies to manage commodity price risks; and (vi) feasibility studies, training, and advisory services to facilitate the development/expansion of commercial agricultural (and weather) insurance. Assistance under this subcomponent would be provided through existing or new rural finance or risk management programs, supported by IDA/IBRD and the IFC.

IV. IMPLEMENTATION SUPPORT, COMMUNICATIONS AND MONITORING AND EVALUATION COMPONENT

83. The program would support the strengthening of public structures for the coordination and management of the individual country projects. In the case of investment operations, this includes central and local (decentralized) arrangements for coordination of activities, financial management, procurement, communications, and monitoring and assessment of progress towards results. In the case of new development policy operations and supplemental financing for DPOs there will be up front agreement with the government and other financial partners on a coordinated accountability framework or modifications to an existing framework (policy matrix and monitoring indicators matrix) agreeing on the indicative triggers and expected program outcomes. Improving the quality and effectiveness of policies will require more timely and reliable information for policy analysis and assessing outcomes, and efforts to strengthen monitoring and evaluation will be supported.

A. Project Management

84. This sub-component would support costs associated with project coordination in participating countries. Program implementation arrangements will be adapted to the specific country capacity and program requirements. Initial rapid diagnostics will assess opportunities to work with existing management arrangements based on their logistics performance and quality of their fiduciary control systems, as well as identifying possible alternatives, including specialized project units and contracting with third party implementing agencies such as NGOS, and UN agencies. Fiduciary assessments and agreement on additional strengthening measures such as technical support for procurement and internal auditing arrangements will be an integral determinant of design of project management arrangements. Monitoring of project management performance will be an explicit part of overall project monitoring with specific indicators such as those in the program results framework. A National Advisory Committee with representation of the key line ministries and relevant stakeholders might provide overall guidance for the GFRP and monitor its implementation.

85. Specific costs are expected to include training in project management procedures--procurement, financial management, reporting --for government staff and others directly involved in supporting project management at the national and local levels. It is also expected to include technical assistance for national and international consultants to reinforce staff capacities as well as provide short-term technical inputs to program establishment and problem solving. Funding for equipment and improvement of project facilities is also anticipated.

B. Monitoring and Evaluation (M&E)

B1. Training. This sub-component would support training in participatory monitoring and evaluation at all administrative levels, a mid-term evaluation workshop, and development of an action plan for M&E and replication of successful models. It would support the following activities: (i) training in M&E; (ii) developing a M&E plan for the specific country projects; (iii) implementation of baseline studies; (iv) Mid-Term evaluation of the project; (v) regular participatory monitoring and evaluation; and (vi) final project evaluation.

B2. Program Monitoring and Impact Evaluation. Support would be provided to develop project monitoring and impact evaluation assessments. Two types of M&E are envisaged:

(i) Monitoring of project implementation. This would be a function of the Program Coordinating bodies, which would collect relevant data from line ministries and other implementation agencies and then compile them into semi-annual or quarterly progress reports (as the case may be) focusing on status of physical implementation by component, use of project funds and monitoring indicators. Specific surveys would be conducted to obtain data for this purpose. It is envisioned that participatory monitoring and evaluation by communities and program beneficiaries will be an integral part of project monitoring and evaluation.

(ii) Impact evaluation. The aim of evaluation is to assess whether the interventions are effective or the Program is having the desired impact. The evaluation will include both quantitative and qualitative aspects and be conducted on an annual basis. The quantitative aspects will rely on new information systems and surveys implemented as part of the various components of the project, currently existing data sources, and primary evaluative data collection efforts. The goal of the qualitative aspect of the evaluation will be to document perceptions of program managers, staff, beneficiaries, and local and national leaders. Qualitative information will be collected using site-visit interviews, focus groups, and respondent surveys.

C. Information and Communication Services.

86. Under this sub-component support would be provided to assist in the design of communications strategies for the overall program as well as key activities, selection and sub-contracting of services to implement the communication interventions; training of spokespersons from priority sectors in managing the media; partnering with the electronic and print media to highlight the national response and ensure accurate reporting. The subcomponent would also support review of existing organizational and management structures related to communications and provide for public opinion polling on food related issues, assessment of the sociopolitical risks and the establishment of national communication structures on the issue. It would also support activities designed to improve the effective coordination and collaboration among relevant stakeholders in the response effort including various ministries (e.g. agriculture, health, commerce, finance, transport), NGOs and civil society organizations (including religious and consumer organizations), humanitarian relief agencies, farmer organizations, agricultural service providers, private and other food companies, industry associations, and the media. The subcomponent would also support local and community-level communications strategies to ensure that potential beneficiaries of rapid support are aware of their entitlements to strengthen social accountability mechanisms at community level.

Annex 6: Economic Assessment

1. The programs supported by this Framework Document seek to mitigate the worst effects of food shortages and price increases on the poorest countries and households through the rapid adoption of responses that will have immediate to medium-term effects if implemented as soon as possible. These include measures to stabilize food prices and improve food policies, the strengthening of those aspects of social protection, human nutrition and health systems related to the price of food; and promotion of rapid responses in food supply chains in an environmentally and socially sustainable manner.

2. As such, the specific interventions to be supported; the related financial and economic opportunity costs; the direct and indirect beneficiary populations; and the benefits to be generated are not pre-determined. A diverse and complex set of possibilities exists, by sector and by country. It would not, therefore, be appropriate or even possible to carry out detailed *ex-ante* rate of return analyses for such a program.

3. Rather, the program's design seeks to establish a decision framework such that the interventions supported by the program will be an efficient use of scarce resources in alleviating hunger. The appropriateness of specific instruments for doing this will be addressed in the proposals for specific country-level actions. More broadly, however, this objective requires that interventions be economically rational uses of resources, and (therefore) likely to report positive economic rates of return and acceptable distributional patterns. This makes it possible to advance rapidly, with expedited procedures (as befits the crisis situation to which the Bank is responding), while still guaranteeing the high likelihood of a positive economic return.

4. This is achieved in three ways. First, by ensuring that the overall design of the menu of activities eligible to be supported under the GRFP is internally consistent; the short-run activities need to be consistent with longer-run strategies. Second, good practice examples are identified and encouraged. Third, a rapid, transparent procedure is offered for the appraisal of specific investments proposed for funding in each country program. This rapid appraisal process will review the following factors, based on standard good practice for the economic evaluation of public investments: (1) the sector policy context; (2) the proposed target beneficiary group(s) (3) the expected effect, or benefit, and cost-effect and/or cost-benefit ratios; and (4) analysis of fiscal sustainability²⁴.

- (i) **Sector policy context.** The general economic case for public action (besides the obvious humanitarian issues associated with food prices in poor countries) is based on the existence of market failures, which distort price signals and lead to sub-optimal levels of private investment or consumption. An example of market failure in the food sector is the instability of the equilibrium price, due to the interaction of inelastic demand functions with elastic, lagged supply responses. This creates the case for publicly mandated mechanisms to stabilize prices around their equilibrium levels and send clear signals to producers and consumers, while discouraging speculative actions.

However, as well as off-setting market failures, public policy can also reinforce or aggravate market failures. For example, price controls (or inter-sectoral terms of trade distortions, more generally) might lead to the under-production of food, relative to socially optimal levels; and trade controls (such as export bans) might reinforce speculative price bubbles. For this reason, the first component of the emergency program laid out in this Framework Document addresses the policy context. As detailed in the main document, it will support governments to analyze the

²⁴ Insert a reference here to a standard Economic Evaluation manual that justifies these criteria.

factors underlying the food crisis and to adopt measures which support and reinforce corrective private (market) responses (such as increasing production and adjusting consumption bundles towards less-inflated foodstuffs) in a sustainable manner, while discouraging responses which are likely to compound the crisis (including gaming responses, leading to “beggar-thy-neighbor” trade restrictions). *In all countries that seek support from the Horizontal APL and the associated Trust Fund, Bank staff will conduct a rapid assessment of the policy context, to identify any correctable policy distortions that might undermine the effectiveness of the proposed investments.*

(ii.) **Targeted beneficiaries.** The immediate purpose of the GFRP is to protect the most vulnerable households and countries against negative effects from food shortage and price-hikes. Appropriate targeting will be ensured ex-ante by the program’s rules on targeting at country and household beneficiary level. (a) *country-level allocation*: these rules are set out in detail in the section on eligibility, and differ across sources of funds; (b) *beneficiary-level targeting*: there are two types of individual beneficiaries of the investments supported by the framework document: individuals and households that will benefit from social protection/nutrition actions; and farmers who will benefit from agricultural support measures.

- a. *Beneficiaries of SP programs.* The menu of supported SP actions gives priority to those which channel resources to priority population groups including the poorest households (those in extreme poverty) and the most vulnerable individuals (especially, pregnant women and children under 3 years of age, who are most vulnerable to negative nutritional consequences from the crisis). Governments will be encouraged to channel the available resources through established programs that are well-targeted to such groups. Preference will be given to transparent, non-distorting transfers (rather than to interventions that alter market prices). Where such programs are not yet available, Governments will be encouraged to use the best-available mechanisms to get additional support to the poorest families, with minimum leakage to non-poor households; and at the same time, to work to strengthen their SP systems in the medium term.
- b. *Beneficiaries of agricultural support programs:* Smallholder farmers are likely to be far more at risk of being unable to cope with rapidly escalating farm input costs to maintain their food production than is the case for larger producers, and to have far less liquidity to finance input purchase. This plus the fundamental poverty alleviation purpose of the facility mandates an analysis of beneficiaries by proposals advocating the use of concessional finance for production support. Successful proposals will need to demonstrate that funds are effectively targeted to smallholder if not exclusively poor (in the sense of earning less than \$1 a day) producers.

(iii.) **Program effects and benefits.** The activities to be financed under components 2 and 3 of the program will be subject to a rapid cost-effect or cost-benefit appraisal, as appropriate. The general methodology is that the program supports a “menu” of best-practice interventions, which are known to generate acceptable cost-effect and cost-benefit ratios when appropriately implemented. It will also verify that the proposed costs of each specific program are acceptable, given local market considerations. The combination of these two factors makes it highly likely that the ex-post returns (either in physical, or effect terms; or in value, or benefit terms) will be acceptable.

Social protection actions proposed for funding under component 2 will be reviewed by Bank Staff to establish that they adopt the best-available design characteristics in the given country context and are likely to report satisfactory cost-effect ratios compared with similar programs in-country and in comparable places. For programs whose main purpose is to transfer resources in cash or in

kind to offset the income effect of food price rises, the parameters to be appraised will include: (i) the poverty characteristics of the targeted beneficiaries; (ii) the administrative margins of the program, defined as the proportion of total program cost not received in a direct benefit at household level; and (iii) the expected proportional impact on disposable household incomes of the transfer or subsidy. For workfare programs, expected design characteristics will also include: the setting of wages below market levels (to discourage displacement of existing jobs); and a time limit on program participation. For programs that aim to offset or mitigate possible negative human development consequences from responses to the food price shock (such as the intra-household diversion of food away from small children or the withdrawal of children from school) the appraisal will certify that the design of the intervention corresponds to best practice and that the costs reflect local market conditions. Such programs might include: nutritional supplements for mothers and babies; nutritional monitoring and counseling; anti parasitic therapies; and transfer programs conditioned on participation in primary health or education such as CCTs and school feeding programs²⁵.

Food supply response actions: as set out in the Program Components section above, these include things like financing for supplying yield-enhancing inputs to farmers (fertilizers, seed) and support for research extension and information systems. The inputs will normally be supplied at market cost, but may be credit financed and in some case may benefit from a subsidy that is targeted, cost-efficient, and clearly temporary. The combination of technical support and input financing should help the sector to respond to price signals for increasing output by intensification of production on cultivated land whose productivity has fallen due to the lack of technical inputs during the long period of low prices. The ex-ante validation of the economic rationality of these investments will be rooted in the farmers' individual decisions to purchase the inputs, based on their own rate of return calculations. Where subsidies are applied, Bank specialists will review the total expected economic rate of return of the investment to ensure it is positive and an equity-based justification will be made for the subsidy (e.g. to small farmers in remote communities who face significant production risks). Similar arguments will be applied to other supply interventions, such as for livestock, where action may be needed to prevent loss of animals and thus depletion of the capital base of the poor.

(iv.) **Fiscal sustainability.** Bank staff will review proposed projects to ensure that they are fiscally viable. The main criterion to be used here is that the program does not give rise to the creation of open-ended commitments of public resources (e.g. for price support or for subsidies) and that all expenditures can be covered within the fiscal envelope of the country's macroeconomic program. As noted above, proposed SP transfers or subsidies will be evaluated for their distributional characteristics to ensure that they are justified in terms of the expected benefit for the most needy households and individuals.

²⁵ In general the economic returns for well-designed interventions on basic health and nutrition are known to be very high. In the 2004 Stockholm consensus review of the 10 most profitable interventions available to development practitioners, 10 of the top 13 interventions were related to nutrition or primary health. The following are some examples of best-estimates of benefit cost ratios produced by Bank staff or published in peer-reviewed journals: salt iodization 30:1; Iron fortification 8:1; De-worming between 3:1 and 60: 1; and the following are cost-effect ratios (in \$ per DALY gained): Vitamin A supplements \$3 to \$16; community level nutrition education \$53; breastfeeding promotion \$4.