

CIO Viewpoint

Food, poverty and Covid-19

Investment Solutions

6 July 2020

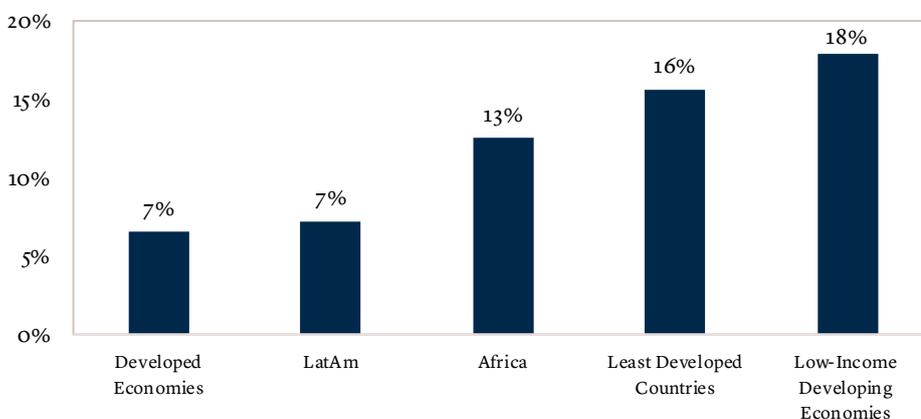
As pandemic lockdowns took hold of the world's economies in March, consumers feared a breakdown in the supply chain and panic-bought staples such as flour, pasta and tinned food. Now, with many countries seeing their economies revive, we must not forget the disproportionate and terrible secondary impacts of Covid-19 on poorer populations still struggling with the pandemic.

Border restrictions, national lockdowns and social distancing measures all disrupted the movement of farm and factory workers, commodities and finished products in the early days of the global pandemic. Governments including Russia, the world's biggest wheat exporter and Vietnam, the [fourth-largest](#) rice exporter, imposed export quotas that were filled within weeks. On 21 April, the Group of 20's agriculture ministers warned that export bans designed to protect domestic production could create shortages and price hikes. These concerns are particularly acute for developing countries. As many rely on food imports, these economies are highly vulnerable to any food security shocks (see chart 1).

Fears over food supply chains are understandable. In the 1980s, [wrote](#) the economist Paul Seabright, a Soviet official tasked with preparing the transition from communism to a market economy asked who was responsible for bread deliveries to London.

Chart 1: Developing countries strongly rely on food imports

Food imports as a share of total merchandise imports and exports (2018)



Source: UNCTAD



Stéphane Monier
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Key takeaways

- Covid-19 is taking a disproportionate toll on poor countries
- The global supply chain has proven resilient and grain harvests are expected to reach a record
- Low commodity prices are undermining some economies and the pandemic threatens millions with hunger
- Development finance can help the most vulnerable populations through crises.

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In the same way that it was hard for a Soviet planner to believe that no-one managed bread supply from farm to fork, at the start of the pandemic it was hard to believe that the food chain would prove resilient enough to keep growing, processing and delivering.

At a global level, the network has managed to both produce and deliver food. Worldwide, cereal production is [forecast](#) to reach a record 2,790 million tonnes this year, 3% higher than 2019, according to the FAO, and government quotas have tended to disappear.

In the last 50 years, the world's population has doubled but as farming techniques improved, the share of malnourished people has fallen from one third to around one tenth. Some four-fifths of the globe's diets rely on imports, and exports have multiplied six-fold since 1990. As technologies have transformed farming practices, digitalisation has also transformed supply chains and logistics. And so as many economies in Europe and Asia emerge from lockdowns, logistics did not prove the weak link in the food chain.

Shipping and labour

Technology is largely responsible for these successes. But they mask other longer-term challenges. There are disparities within the supply chain: high value meat and vegetables or dairy products for example, are labour intensive and struggling with labour supply and storage. In contrast, commodity staples such as grain, soybeans are more easily stored.

One logistical issue is shipping, which accounts for around 80% of global trade by volume and depends on 2 million crew. Many cargo vessels have now been at sea for many months and are close to breaching an 11-month limit under international labour laws because they cannot leapfrog quarantine measures in ports. The United Nations' Conference on Trade and Development (UNCTAD), [warns](#) that an estimated 300,000 seafarers and offshore workers per month need to travel home from ports worldwide and has called for crews to be treated as 'essential workers' along with healthcare staff.

Secondly, migrant labour for food production and processing cannot travel to harvest crops. Farm workers who cannot earn must cut their spending, while farmers who cannot harvest crops will not be able to turn their production into income and re-invest in fertiliser and seed for next season, exacerbating vicious poverty cycles. All of this will translate into a dramatic increase in the number of malnourished people worldwide.

The UN's World Food Programme said last week that it is planning this year to feed more people than ever in its history. The number of hungry depending on food handouts may rise to 270 million by the year-end, the agency said, from a previous record of 97 million in 2019. "Until the day we have a medical vaccine, food is the best vaccine against chaos," [said](#) David Beasley, head of the WFP. A lack of affordable food may fuel social unrest, migration and conflict among populations "that were previously immune from hunger," he added.

In net food importing countries, the UN estimates that existing populations of the undernourished will rise from around 70-120 million to 900 million as a result of Covid-19. That has knock-on effects on populations' health, and resistance to disease.

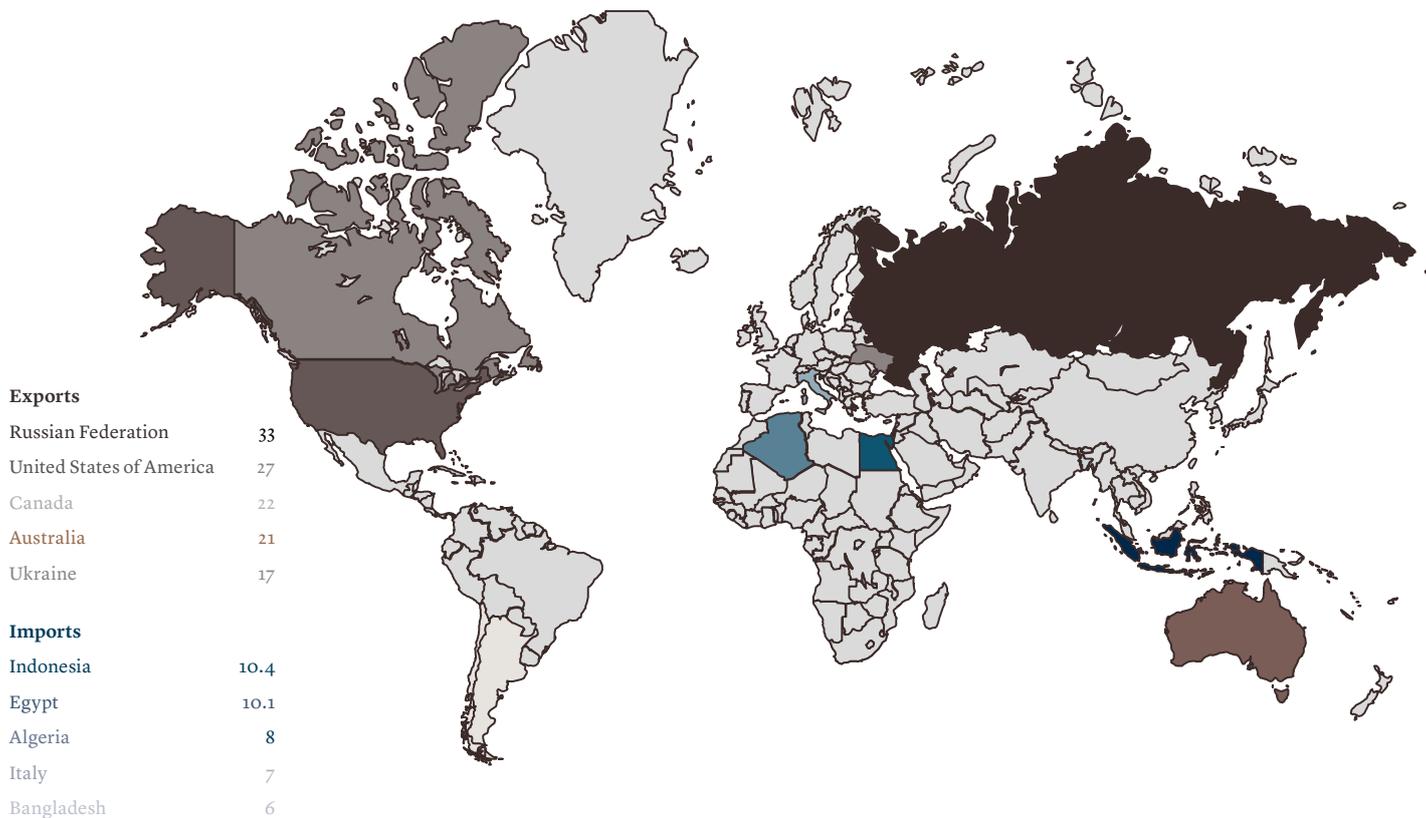
The worst affected regions, Africa and Latin America, depend on commodity exports for much of their income. Prices of raw materials from oil to coffee, cotton and minerals have all collapsed. Until prices recover, there is little prospect for a return to pre-pandemic economic activity levels in many economies.

Even middle-income countries such as Peru, Chile and Brazil are suffering from dramatic increases in hunger, said the FAO's chief economist, Máximo Torero Cullen in an online discussion last month hosted by Geneva's [Graduate Institute of International and Development Studies](#). The decision in mid-April by G20 nations to halt government loan repayments from 76 low-income countries until the end of 2020 will not be enough to prevent many populations in the most affected countries from going hungry, Mr Torero Cullen added.

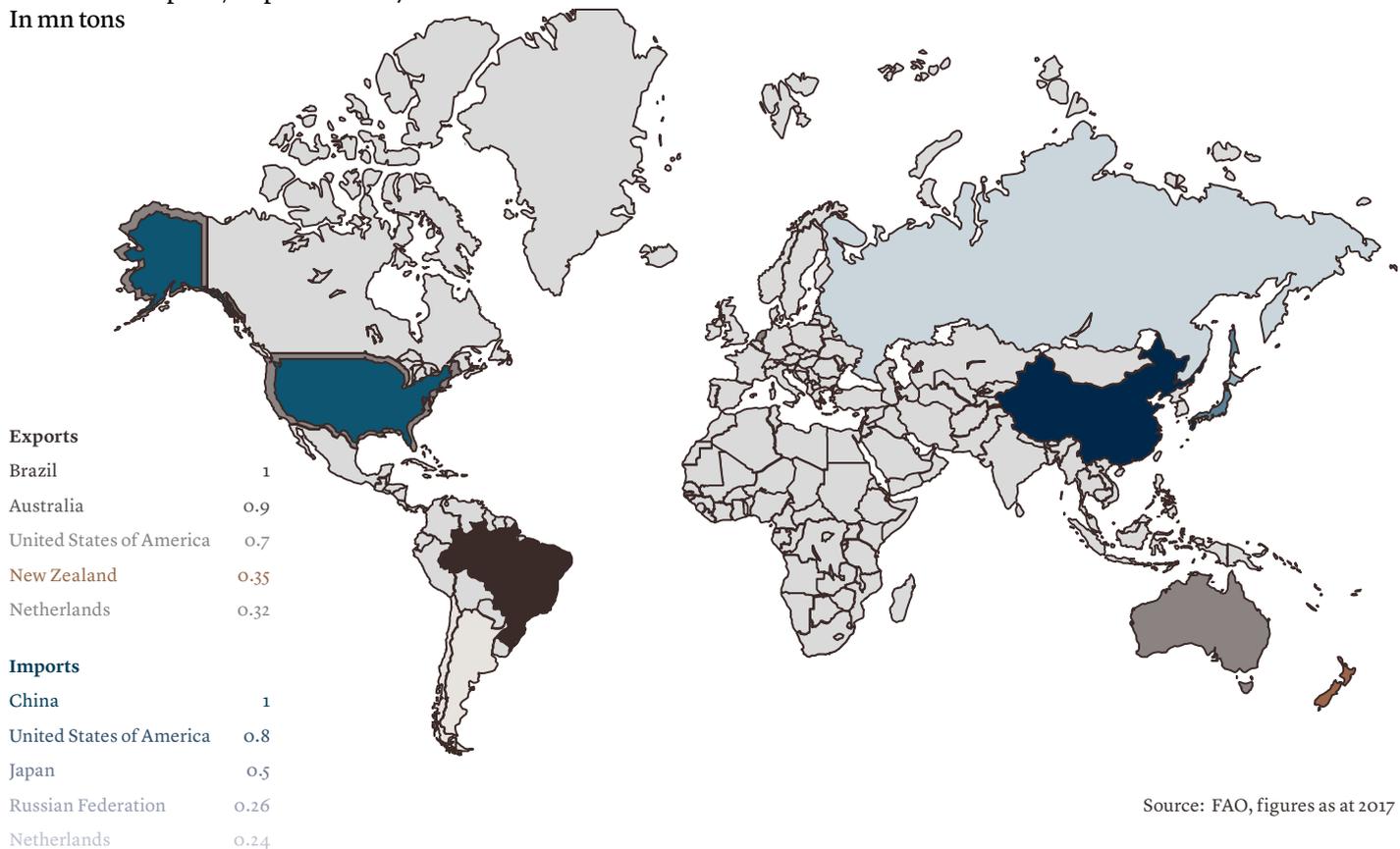
Adequate monetary and fiscal support is needed for many nations who need long-term, bottom-up solutions. At the institutional level, the International Monetary Fund has provided, for example, a two-year credit line of USD11 billion to Peru.

Development finance is also playing a role in the recovery process. As part of the UN's sustainable development goals (SDGs), financial institutions have created credit and equity funds designed to help small companies and individuals in developing countries for both social and environmental targets. Microfinance institutions (MFIs) have experience managing crises by maintaining liquidity levels, restructuring debt and coordinating with other financial actors. Microfinance supports the most vulnerable and often rural populations in developing countries and, thanks to a long-term horizon, funds are able to stay invested through crises. As a global recession bites, the continued access to banking services, and more recently education and health services that these structures offer, are vital for vulnerable populations.

Wheat exports/imports for 2017
In mn tons



Meat Cattle exports/imports for 2017
In mn tons



Source: FAO, figures as at 2017

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