



Stemming the 'silent tsunami'

Over the past two years, approximately 100 million people have been pushed into poverty globally as a result of increased food prices. Gains in poverty reduction efforts in developing countries are at risk if governments fail to protect the poor from rising food prices, says Vikram Nehru, the World Bank's Director of Poverty Reduction and Economic Management and Acting Chief Economist for East Asia. "It's like a silent tsunami in the sense that there's no dramatic footage that can bring home to people the misery and the human suffering that such price increases can exert on the poor."

Nehru says that in countries such as Indonesia, a 10 per cent increase in food prices leads to a further two million people living in poverty. "This is a setback - there's no question about it and if Vikram Nehru - INSEAD Knowledge prices continue to rise, it'll pose even bigger and bigger problems."

In an interview with INSEAD Knowledge, Nehru said this doubling or tripling of the prices of important food grains is unprecedented. "It's never happened before and what makes it worse is that on previous occasions when food prices have climbed, they've always come down very rapidly. But this time we don't expect food prices to come down. We, in fact, expect food prices to remain elevated – perhaps not at these high levels but certainly higher than in the past – for at least another 10 years or so."

The World Bank is prescribing a two-pronged approach: an immediate response to enable people to meet their nutritional requirements; and a longer-term investment in agricultural research, something which Nehru says has been neglected in the recent past. "For quite a long time now, the world has not emphasized agricultural production as perhaps it should have and there is a need for increased

investment in agricultural research, in irrigation, in new seeds, in new technology." World Bank lending in this area is to be increased to US\$ 6 billion next year from the current US\$ 4 billion per year – and perhaps more in subsequent years. "This will be part of a broader effort by the international community to invest about \$30 billion a year in increased agricultural investment in poor countries," says Nehru.

In the immediate term, however, the World Bank has just approved a US\$1.2 billion fast-track facility to provide funding quickly to governments which need such assistance in order to put in place programmes to help protect the poor from food price increases. "We would not recommend blanket subsidies because they tend to be very costly but what we do recommend is that governments target transfers of resources from the budget to the poor."

Nehru adds that governments are acting quickly. "We've just seen Indonesia introduce an important transfer programme to 19 million households and, given that each household is roughly four-and-a-half people, that's about a third of the population ... I have every confidence that it will be implemented

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well and similar sorts of programmes are being introduced – not, perhaps, on such a wide scale – but similar sorts of programmes are being introduced in other parts of the world, Africa and Latin America and so forth.” Other immediate responses include school feeding programmes and ‘work-for-food’ schemes, to ensure that the most vulnerable sections of the population are able to access daily rations of food. While increased food prices have dealt a major blow to poverty reduction efforts, Nehru says that this can be overcome with continued economic growth. “The important Worker in rice paddy field - INSEAD Knowledgepoint, remember, is that one of the most powerful drivers of poverty reduction has been economic growth, and if countries continue to grow as they have – not just in East Asia incidentally – in Africa and other countries, then poverty can continue to come down even as we deal with the high price of food. But the reality is, we’re going to have to try and bring down poverty over the long term by a combination of broad economic growth as well as investments in agriculture production.”

Such growth, Nehru notes, needs to be inclusive: “The World Bank’s view is to try and help countries implement policies, programmes, and investments which lead to inclusive growth ... growth which does not lead to increases in inequality, but perhaps, in fact, evenly decreases inequality.” Historically, countries with rapid growth have faced significant increases in inequality. Nehru says this no longer has to be the case. “More recently we have found various means through fiscal policies and through investment policies of bringing about a pattern of growth, which not only is sustainable and relatively rapid, but also is inclusive; and that is the challenge the Bank is trying to meet with its client countries.”

Measures include ensuring the poor have access to education, healthcare, infrastructure, as well as microfinance loans, and “making sure there are no impediments to the poor for participating in the economic growth process. [These are] the best means for including them, reducing poverty and increasing their incomes.”

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