



World Bank Group Announces New Instrument to Help Food Producers and Consumers in Developing Nations Deal with Volatile Prices

The World Bank Group today announced a new risk management product to provide up to an initial \$4 billion in protection from volatile food prices for farmers, food producers, and consumers in developing countries, addressing a key issue that will be discussed later this week by Group of 20 (G-20) ministers.

This first-of-its-kind product will improve access to hedging instruments to shield consumers and producers of agricultural commodities from price volatility. It will also protect buyers from price rises in food-related commodities such as wheat, sugar, cocoa, milk, live cattle, corn, soybean, and rice.

"With this new tool, we can help farmers, food producers, and consumers protect themselves against price swings, strengthen their credit position, and increase their access to finance," said World Bank Group President Robert B. Zoellick. "This tool shows what sensible financial engineering can do: make lives better for the poor."

The Agriculture Price Risk Management (APRM) product will initially be rolled out by IFC, the World Bank Group's private sector arm, and J.P. Morgan. IFC hopes to roll out the product with other banks in due course.

"We are proud that the World Bank and IFC have selected J.P. Morgan to partner with them to help address this public policy challenge in developing economies," said Jes Staley, CEO of J.P. Morgan's Investment Bank.

In the debut facility with J.P. Morgan, IFC will commit up to \$200 million in credit exposure to clients that use specific price hedging products, while J.P. Morgan will take on at least an equal amount of exposure to them. Since the exposure associated with risk management operations is typically smaller than the principal amount of hedges made available to clients, these combined credit exposures should enable up to \$4 billion in price protection to be arranged by J.P. Morgan for emerging markets agricultural producers and buyers.



Potential clients for the APRM product can include agricultural producers, consumers, aggregators, cooperatives, and local banks as well as others that meet predetermined requirements.

Developing risk management tools will be part of the plans to be discussed by G-20 agriculture ministers at their meeting in Paris this week. It was also part of a nine point plan recommended by the World Bank President in January to address high and volatile food prices.

Price stability is vital to help producers obtain finance needed to expand operations as well as increase farm production, and to assure reasonable access to food supplies for consumers. While price risk management products are routinely used in agriculture in developed countries, hedging instruments cannot be obtained directly by smaller emerging market producers and consumers because of high upfront costs and margin requirements. Furthermore, many financial institutions in emerging markets are not yet experienced with these risk management services, and do not offer them to local clients.

The new APRM product enables producers and consumers in developing countries to access agricultural price risk management. J.P. Morgan- and in the future other banks - will work with clients in emerging markets to appropriately hedge price risk associated with their business. IFC facilitates this by sharing in the credit risk of these customers.

Aside from promoting the use of risk management instruments, Zoellick said the G20 agriculture ministers could take a major step forward this week to address high and volatile food prices by agreeing to improve transparency in agriculture, with an information system to increase public access to information on the quality and quantity of grain stocks.

Speaking ahead of the meeting, Zoellick said he was also hopeful G20 agricultural ministers would take the first steps in agreeing to exempt humanitarian food aid from export bans, so food aid can get to hungry people in time to save lives.

"We have been in a period of extraordinary volatility in food prices, which poses a real danger of irreparable harm to the most vulnerable nations and people," Zoellick said. "High, uncertain and volatile food prices are the single gravest threat facing the most



vulnerable in the developing world. People are hungry for food and for action on a global level."

The World Bank President said greater transparency on food stocks around the globe sends a powerful signal and would help reduce food price volatility by reassuring markets and helping calm panic induced price spikes.

Zoellick said the stresses on the world's agricultural system - compounded by growing demand for food - were evident in the numbers. Annual growth in rice and wheat yields in developing countries - home to four fifths of the world's population - has dropped from three percent in the 1970s to just one percent today.

And he warned agriculture was under threat by climate change and without strong adaptation measures, climate change could reduce yields by 16 percent worldwide and 28 percent in Africa alone over the coming half century.

The World Bank President said greater investment in agricultural research was needed as food production must rise by 70 percent in order to feed an expected global population of more than nine billion people by the year 2050.

"We need to be creative about farming, so there are not only more crops but more resilient crops, if we're to respond to the challenges of feeding a growing population under more difficult and unpredictable conditions," Zoellick said.

The World Bank Group says since June last year, rising and volatile food prices have led to an estimated 44 million more people living in poverty - under \$1.25 a day. There are close to one billion hungry people worldwide - or one in seven people on the globe.

The Bank Group has boosted its support for agriculture with spending up annually from around \$4.1 billion in 2006-08 to between \$6.2 and \$8.3 billion a year in 2010-12

[world-grain](#)