

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB6559

Project Name	Arab World Initiative for Financing Food Security
Region	MIDDLE EAST AND NORTH AFRICA
Sector	General agriculture, fishing and forestry sector (34%);Ports, waterways and shipping (33%); Social safety nets (33%)
Project ID	P126506
Borrower(s)	TBD
Implementing Agency	
Environment Category	<input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Key development issues and rationale for Bank involvement

The Arab World Initiative (AWI) is a World Bank Group partnership with the countries of the Arab world to promote effective collaboration in the interests of economic integration and knowledge sharing. This concept note lays out a rationale for the establishment of a regional Adaptable Program Loan (APL) facility which would launch the Arab World Initiative for Food Security (AWIFS) to improve food security in Arab countries. The sharp rise in food prices experienced in early 2008 and its resurgence since 2010 have triggered grave concerns about food security, malnutrition, increased poverty, and political stability throughout the world. And it is increasingly being recognized that due to a confluence of factors, international food commodity prices are likely to remain high and volatile in the medium-term.

Increasing food demand is a world-wide concern, but the structural factors contributing to it – rapid population growth, income growth, and urbanization - are increasing faster in Arab countries than elsewhere. Population trends drive food demand and the population growth rate of Arab countries is 1.9 percent, which is much higher than the world rate of 1.2 percent. Not only is the number of people increasing faster in Arab countries than elsewhere, but so is their purchasing power. The current income growth rate of Arab countries outpaces the global average, at 2.8 percent to 2.3 percent. Urbanization, which is correlated with increased caloric intake, is also on the rise with 2.3 percent growth in Arab countries surpassing the global average of 2.0 percent. In addition, Arab countries suffer from a number of supply-side constraints, including limited water and arable land resources. As a result, they are highly dependent on international food commodity markets.

Vulnerability and exposure to food price shocks is alarmingly high in the region, particularly among the poor. A high share of households hovers around the poverty line and can rapidly fall into poverty because of shocks. For example, as many as 17 percent of Egyptians, 15 percent of Yemenis, and 10 percent of Moroccans have consumption levels which are just 50 cents above the

\$2/day poverty line.¹ At the same time, food price increases have a high impact among the region's poor. For example, during the 2008 food crisis, prices in Egypt and Jordan increased by more than 20 percent (which is above the developing countries average). Staple food prices increased even faster, making poor household extremely vulnerable. Overall, and despite economic growth and almost universal coverage by food subsidies, poverty in Egypt increased from 19.6 percent in 2004/05 to 22 percent in 2008/2009. Poor households in the Middle East and North Africa (MENA) region were disproportionately impacted by the 2008 food crisis because: (i) they spend a larger share of income on food, which accounts for more than 50 percent of poor households spending in Morocco, Yemen, Egypt, and Djibouti,² and (ii) most rural poor in the MENA region are net food consumers. Farmers (and their families) account for about 60 percent of all poor in Egypt and Morocco, but farming makes up only 40 percent of their incomes

Limited water and arable land resources in Arab countries constrain traditional domestic opportunities for the future of food production. Arab countries are among the most water stressed in the world and climate change projections suggest the situation is going to get worse. From 1950 to the present, per-capita renewable water resources have fallen by approximately 75 percent. They are expected to decrease by an additional 40 percent from present levels by 2050. Opportunities for expansion of arable land are limited. Excluding Sudan, the amount of permanent and arable cropland increased at an annual growth rate of 1.7 percent from 1995 to 2005 (6.7 percent with Sudan). Worldwide, arable and permanent cropland increased 2.3 percent. Limited arable land resources in combination with a rapidly growing population may lead to a troubling future: by 2050, arable land per capita is projected to reach 0.12 hectares, a fall of 63 percent from its 1990s level.

Arab countries are the largest net importers of cereals and sugar, and are therefore more exposed than other countries to severe swings in international prices for these agricultural commodities. Of particular concern are price shocks, such as the 40 percent rise in the cereal price index and the 77 percent rise in the sugar price index over the last six months of 2010. Together, cereals and sugar comprise roughly 61 percent of per capita caloric consumption in the MENA region, which is seven percentage points higher than the worldwide average. At the same time, roughly 58 percent of consumed cereal and 75 percent of consumed sugar come from imports. Surging international prices thus place significant upward pressure on national and household budgets, depending on the level of domestic consumption subsidies and pass-through effect. At any rate, the poor are likely to be hit hardest because they typically spend anywhere from 35 to 65 percent of their income on food. Also, a sustained surge is likely to lead to an increase in poverty because a large number of people live close to the poverty line in Arab countries.

Arab countries want and need to act urgently to improve food security. Projections of the region's food balance indicate that imports will increase by almost 64 percent over the next twenty years. The regional AWIFS APL facility will finance a series of projects to help offset Arab countries' current vulnerability to food price shocks. The facility would be complemented by a grant facility that would soften IBRD (and other participating institutions') rates. The facility would include three components: (1) strengthening safety nets; (2) enhancing food supply; and (3) reducing exposure to international food commodity market volatility. By offering a menu of policy actions

¹ World Bank (2010), MENA poverty Brief.

² Food staples (wheat, oil, sugar) alone represent 15% of poor household spending in Morocco, and 20% in Egypt

and investments that span all three components, Arab countries can address food security challenges as part of a comprehensive strategic program.

The World Bank has substantial comparative advantages in leading the establishment of the proposed regional AWIFS APL. It possesses a unique cross-cutting and global best practice knowledge base and it has the necessary financial management architecture and controls in place to respond quickly. Importantly, it has substantial recent experience in designing and implementing global food security programs that can be leveraged for the rapid design of the proposed facility. In regards safety nets, the Bank has helped develop and implement support programs in different parts of the world, including the MENA region, that provide adequate protection to the poor and vulnerable during crises and quick post-crisis return. In regards food supply-oriented activities, the World Bank's Global Food Crisis Response Program (GFRP) is helping some 40 million people in over 40 low income countries, providing them with assistance through new and improved seeds, irrigation, and other farm support and food assistance for the most vulnerable people. The Global Agriculture and Food Security Program (GAFSP) supports country-led agriculture and food security plans and helps promote investments in smallholder farmers in low-income countries. In the field of increasing the efficiency of staple food import, handling, and distribution chains, the World Bank's MENA Regional Department has been conducting a detailed benchmarking analysis of the logistical systems of 10 grain importing countries of MENA Region and is in the process of finalizing a technical assistance and project identification study. In the course of this exercise, food procurement practices and problems have also been examined, involving experts inside and outside the World Bank. The World Bank is thus well-positioned to assist MENA client governments with the design and implementation of facilities that address a wide range of food security issues, including safety nets, agricultural development, and commodity market volatility.

The World Bank has the financial management architecture and controls in place to rapidly set up a facility and start disbursements. The GFRP program was established in May 2008 and in less than three years managed to deliver approximately US\$1.5 billion in food security investments. The GAFSP, set up by the World Bank Group in April 2010 (at the G20's request), has received pledges from six countries and the Bill and Melinda Gates Foundation totaling US\$925 million and awarded grants worth US\$321 million to eight countries. The AWIFS is expected to closely follow the GFRP model where lending from the World Bank (and other participating institutions) is packaged with externally financed Trust Funds.

While the World Bank is well placed to administer the proposed facility, strategic oversight of grant co-financing would be provided by a steering committee including representatives from key multilateral and bilateral institutions involved in food security initiatives in the Arab World. All of the Multilateral Development Banks (MDBs) working in Arab countries would be eligible to submit projects for financing under the proposed regional AWIFS APL facility.

2. Proposed objective(s)

The higher-level objective of the facility is to improve food security in Arab countries. In order to achieve this higher-level objective, each project will have one of three objectives: (1)

strengthening safety nets; (2) enhancing food supply; and (3) reducing exposure to international food commodity market volatility. The project development objective will be specifically tailored to the needs of each project.

3. Preliminary description

Component 1: Strengthening safety nets. The 2008 food-price shock has been associated with an additional four million undernourished people in Arab countries. Well-targeted and scalable safety nets could soften the impacts of price shocks by ensuring that poor families do not compromise their health or children's education to meet rising food costs. The poor in the region are most vulnerable to food-price shocks, spending anywhere from 35 to 65 percent of their income on food. Most countries in the region have one or more cash-transfer programs that could be reformed or broadened to fulfill this need. This component would support countries in: (i) building effective social safety net systems for crisis preparedness, (ii) consolidating existing fragmented safety net programs for more effectiveness and results, including reducing overlaps and bridging coverage gaps, (iii) linking social safety nets to interventions that build human capital and improve people's productivity; and (iv) building community interventions to improve access to services for the poor, generate short-term employment, and contribute to community assets. Examples of potential policy and investment activities include the development of emergency safety nets that minimize the negative impact of the food crisis such as targeted cash transfer systems to protect the poor and vulnerable or workfare programs to improve nutrition and promote community development driven by citizens' demand. Other potential activities comprise social safety nets enhancements to support human development outcomes, including institutional capacity building to better reach the poor by developing central registers of beneficiaries and better targeting systems, capacity building to implement new targeting system and strategies for graduation out of poverty with beneficiary development programs, and improving access to social services for the poor through community development projects or integrated social care service provision.

Component 2: Enhancing food supply. Arab countries can take steps to increase food production at home, even with the constraints imposed by the limited availability of water and land. This second component would improve agricultural productivity (per unit of land or water) and marketing through investments in technology, research and development, improved agricultural water management, and supply chains and domestic markets. Improved technology would aim to boost cereal yields and make more effective use of critical inputs such as water and fertilizer. Equally important is investment in agricultural research and development, which despite average rates of return of 36 percent in Arab countries, receives less funding than in the rest of the world. Climate change is likely to have a significant impact on domestic production, and research and development initiatives are urgently required to drive the next Green Revolution and stabilize rainfed yield variability. Better water management will be critical in raising agricultural productivity. Supply chains and domestic markets are important because they are a critical element of costs and price formation that affect both producers and consumers. Examples of potential policy actions include competitive financing for research, extension reform, water pricing, and domestic market policy reform. Examples of potential investment lending include technical assistance and infrastructure associated with extension, research and development, irrigation systems, and supply chains and domestic markets.

Component 3: Reducing exposure to international commodity market volatility. Arab countries are likely to remain net cereal importers even with increases in agricultural productivity. There are many potential investments – in transportation, logistics, and storage - that can reduce the time and cost of importing food and ultimately serve as a buffer against international price spikes. Examples include investments (both new construction and rehabilitation) in grain unloading and handling equipment at the ports, silos, and road infrastructure. Arab countries may also make better use of financial instruments and improve procurement procedures to reduce exposure to market volatility. Examples of policy actions include issues related to tendering and procurement procedures as well as Public-Private-Partnerships (PPPs).

4. Safeguard policies that might apply

The regional AWIFS APL has been classified as Category A and the Environmental Assessment (EA) Safeguard Policy OP 4.01 is triggered by the proposed facility. Along with eligibility criteria and details for accessing the funds, the project document of the facility will also include guidance to be followed at the project level which will ensure compliance with Bank safeguard policies.

A project implementation unit will be setup at the project level that will be expected to include the required capacity to undertake successful implementation of the Bank’s safeguard policies. A capacity assessment of the implementing entity will be undertaken during project preparation and training will be provided, as necessary.

5. Tentative financing

Source:		(\$m.)
Borrower		TBD
International Bank for Reconstruction and Development		1,000
	Total	TBD

6. Contact point

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