GLOBAL FINANCIAL CRISIS AND FOOD SECURITY IN DEVELOPING NATIONS: TREND, EFFECTS AND WAY FORWARD

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Abstract

Global financial crisis has gained currency in contemporary political, economic and social discourse, and impliedly becomes a more problem area globally. Finance is the cornerstone of every economic activity, which in turn, is the basis of national economy. Finance, a branch of economics, is concerned with the process of raising funds or capital for any kind of economic activity which include the circulation of money, the granting of credits, the making of investment, and the provision of banking facilities locally and globally. Karl Marx opines that the economy (finance) is the substructure of the superstructure, including food. This underlines the importance of this discourse. In the light of this, the paper examines the antecedents, changes and solutions offered at differing periods. It further x-rays the relationship between financial crisis and food security in contemporary times, seemingly immutable warnings, the associated problems, etc. It finally takes an incisive look at the prospects/way forward for developing countries, particularly Nigeria.

Introduction

Finance, in Synergy with economy, is considered vital in all economic activities. Karl Marx opined that the economy is the substructure of the superstructure which includes politics, religion, education, psychological disposition (consciousness) and social status etc. Despite criticisms from Hegelian school of thought, Marx's view remains unequivocal, and relevant in the current global financial crisis .In every economy, recession takes place before a crisis is declared. Recession refers to the reduction in a country's Gross Domestic Product (GDP) for at least two business quarters. There are a number of signs that a recession might be happening or about to happen. This includes a significant drop in prices on the stock market, (Hinton 2007).

Global financial crisis, impliedly, is an economic downturn that affects major world economies. The current financial crisis started from United States of America, and trickled down to other major and minor economies worldwide. As contentious as it appears, an uncertain roadmap is the extent to which the current economic melt-down has affected and influenced economic activities, and even in the years to come.

A shared prudence is that the economy is the king-pin on which all economic activities revolve. The logical question is, which of the human activities is worst hit by the crisis?. In strict political, economic, social, moral and strategic policy analyses, food security affects domestic and international positioning in global discourse. The clamour for democratization across the globe will be a mirage where peoples of the world are largely destitute by hunger. In view of this, attention to financial crisis as it affects food security is illuminating.

Financial Crises and Food Security: Concept Clarification

Finance is the cornerstone of every economic activity which in turn, is the basis of every national economy (Ikpe, Nzenwa and Ikenna, 2009:14). Finance, a branch of economics is concerned with the process of raising funds or capital for economic activities which include the circulation of money, the granting of credits, the making of investments and the provision of banking facilities (Websters Ninth collegiate dictionary, 1983), locally and globally. Finance is different from, and though related to capital. Expectedly, finance relates to money and near-money assets which have separate identity and marginal satisfaction to the holders; capital relates to the physical plant and capital goods such as machinery etc which are capable of production. The majority of transactions in an economy are facilitated by financial instruments (Ikwumezie, 2005:7).

Also finance and economy are interchangeably used but not the same. Economy is holistic, encompassing micro and macro economics. Finance, Ikwumezie contended, makes use of available economic tools like demand and supply, consumption theories, optimal operating strategies etc. Finance draws largely from macroeconomics which influences microeconomics.

Placed in a proper perspective, Nnamocha (2001:4) opines that the place and environment and the way in which economic activities as a whole take place is called the economy or economic system. It includes the set of organizational arrangements and institutions that are established to solve the economic problems.

Functionally, finance performs two distinct functions like financing and investing: “financing describes the management of capital source”. Financing decisions concentrate on the type, size and percentage composition of capital source. Investing on the other hand describes the management of capital uses. Investment decisions concentrate on the type, size and percentage composition of capital uses (Ojiuko, 2005:3).

Van-Horme (1977) views finance from “what finance manager do, which include financing, investing and dividend decision.” Dividend decision deals with how profit of the enterprise should be divided between more investment and dividends to shareholders. The decision also involve how borrowed capital and investment on such capital can be paid to lenders of capital (Ikwumezie,s 2005:5). He contended that finance is a body of principles and theories dealing with raising, investing, managing and return of funds by individuals and organizations.

Crisis

Crisis arises when a situation has reached a critical phase. Strictly, crisis is a state of affairs in which a decisive change is impending, especially one with the distinct possibility of a highly undesirable outcome (Webster’s Dictionary). Thus, financial crisis arises when the financial state of affair approaches a necessary change of a highly undesirable outcome. It at times may be called economic melt-down, financial panic, global recession, economic crises etc. Equally crisis condition is marked by overpowering alarm, in financial or commercial circles, leading to a sudden and drastic restriction of credit and great shrinkage in commodity and property prices. A panic usually precipitates a wave of business failures and may be followed by a period of depression (Redmond, 2008). Financial panic frequently result from undue expansion of bank loans, over extension of commercial credit, widespread speculation, unsound governmental fiscal policies. Financial panic is often a prelude to a crisis that extends beyond commercial activities into sectors of consumption and capital-goods industries.

Food Security

Security cannot be taken to be all about military might. There is security in food which has linkages with social security, social harmony, good health and “assured psychological feeling of internal and external vigilance and freedom from fear of loosing core values” (Akpuru-Aja, 1999).

Walter Lipmann (1989:143) argued that security is being in a position not to "lose core values like life, property and liberty…."

Food security bears relevance to quantitative and qualitative food extraction, storage, distribution and efficient commodity pricing. To ensure food security there should be internal food policies oriented towards availability of food at all times, social harmony and control of inflation.

Food security is said to be the various efforts of the various governments and some other international organizations like the Food and Agricultural Organization (F.A.O) to guarantee food sustainability.

Objectively, food security entails having food awareness and food consciousness which presupposes knowledge, behaviour and actions towards food. Security consciousness hinges on sharp reflexes, alertness, vigilance, rationality and agility in action. Food security assures food sufficiency and therefore food defence (Ikpe, Nzenwa and Ikenna, 2009:14).

Food security is closely connected with economic growth and social progress as well as, political stability and peace. Food security agenda should focus on agricultural and rural developments by promoting sustainable production, productivity and rural economic growth (Reuters, 2009).

The global recession has direct impact on the rising cost of food and fuel prices. With these rising prices comes an increase in the incidence and severity of hunger in developing countries. Rising food prices, coupled with a general food shortage in developing countries is having a disastrous effect on food security for people in developing nations.

Global Financial Crisis: A Historical Perspective

Until the 19th Century, economic fluctuations were largely connected with shortages of goods, market expansion, and speculation, as in the incident known as the South Sea Buble (1720) when stock speculation reached panic proportions in both France and England.

Panic in the industrialised societies of the 19th and 20th centuries reflected the increasing complexity of advanced economies and the changed character of their instability. The panic of 1857 in the United States was the outcome of a number of developments, including the railroads defaulting on their bonds, decline in the value of rail securities, and the tying up of bank assets in non-liquid railroad investments. Its effects were also complex, including not only the closing of many banks but also a sharp increase in unemployment in the United States and a money-market panic on the European continent.

The panic of 1873 began with financial crises in Vienna in June and in New York City in September, marked the end of the long-term expansion in the world economy that has begun in the late 1840s. A financial panic in the United States in 1907, brought on by questionable banking practices and a loss of confidence in the banking system, resulted in the establishment of the Federal Reserve System. Widespread changes in stock-market regulation followed the crash in 1929. (Encyclopaedia Britannica, 2009).

The Great Depression of 1929-30s (the worst period being 1929-1932) contributed to the collapse of the classical views. "The Great Depression brought a lot of problems to American economy" (Uwazie, 1998), which led to prolonged unemployment and fluctuations in the prices of commodities. The classical economists were unable to adduce reasons and solutions to these problems. Because they believed that (a) market economy has enough in-built self correcting mechanism. (b) unemployment occurred due to over production and will be corrected by market forces. (c).Unemployment may be due to interference from government, insufficient competition, or unwillingness of workers to adjust their wage demands to market forces.

In the face of that economic quagmire, John Keynes in his book, "The Great Theory of Employment, Interest and Money" offered the road-map to economic recovery, by "overcoming the dogmas of classical economics, and exploring the middle path between what appeared to be the irreconcilable extremes of Adam Smith and Karl Marx, and successfully demonstrated what public intervention can do in a largely private enterprise system to develop the economy and advance peoples welfare" (Igwe, 2007:218).

Keynes proposed that:

1) Government-sponsored spending stimulates aggregate demand and can be used to overcome depression and unemployment.
2) Taxation and other fiscal policies should be used to control or manage aggregate demand.

The world experienced a moderate financial crisis "by the mid 1980's before the drought of 1988 which caused a new price rise" (Dolan and Lindsey, 1991:92). The crisis was quickly brought under control because as Dolan and Lindsey pointed out "The principal economic role of government is to step in where markets fail to allocate resources efficiently and fairly. Each type of market failure calls for a particular type of governmental intervention.

The current global financial crisis "began in July 2007 when a loss of confidence by investors in the value of securitized mortgages in the United States resulted in a liquidity crisis… that prompted a substantial injection of capital unto financial markets by the United States Federal Reserve". The crisis, Bakrania and Lucas (2009:3) said was triggered by the bursting of the United States housing bubbles in 2007 and the reverberations of this are now being felt throughout the world. The crisis was greatly exacerbated by the behaviour of banks which has inevitably made the position of any country that has borrowed money worse off". (Global Financial Crisis 2008-2009-Wikipedia). It has been called the "most serious financial crises" since the great depression. Its effects are characterised by "failure of key businesses, declines in consumer wealth estimated in trillions of U.S. dollars, substantial financial commitments incurred by governments, and significant decline in economic activity" (Global Financial Crisis of 2007-2009-Wikipedia Encyclopaedia).

The collapse of United States of America however posses a serious problem for the world, because global currencies are denominated in the dollar and currently there is nothing else to replace it. The Chinese who have the potential to replace the U.S. just as the U.S. replaced Britain have 90% of their assets dollar based. So the world is stuck until a better sustainable model comes up (Mallam, 2008).

Nigeria and Global Financial Crisis

One of the challenges facing Nigeria today is global financial crisis which has complex disquieting economic and social effects. "Sub-Saharan Africa (including Nigeria) was largely insulated from the initial stages of the financial crisis as the majority of the countries in the region are de-linked from the international financial markets" (IMF, 2009).

In recent years, there has been more interest in Africa from Asian countries such as China. As the financial crisis is hitting the Western nations the hardest, Africa may yet enjoy increased trade for a while (Anup Sha, 2009). However, with the worsening of the global financial and economic crisis, the region as a whole has now been exposed to the downturn, and growth estimates have been continually lowered from 5 percent in 2008 to 1:1 percent in April 2009 (IMF, 2009).

At the 119th, meeting of the International Conference Centre in Geneva (CICG), Switzerland the meeting expressed the fear that "the worlds poorest nations are the most vulnerable, and that in this regard Africa (Nigeria) is not exempted from the Spiral effects of the Crunch" (CBN, 2009:2).

Summarizing United Nations Conference on Trade and Development report, the 3rd World Network noted the impact the crisis could have around the world, especially on developing countries "particularly, Nigeria" that is/are dependent on commodities for import or export, to include,

Uncertainty and instability in international, financial, currency and commodity markets, coupled with doubts about the direction of monetary policy. Policy in some major developed countries are contributing to a gloomy outlook for the world economy and could present considerable risks for the developing world.

It concluded by saying "commodity dependent economies are exposed to considerable shocks stemming from price booms and busts in international commodity markets".

Most African Countries, Nigeria being a major, through their Central Banks, have their foreign reserves stashed out in Dollas and Pounds in the United States of America and Western Europe. Portending low income in subsequent years because of the low interest rates following governments and Central Banks intervention (CBN, 2009). Sha (2009) noted that because of the critical role banks play in the current market system, when the larger banks show signs of crisis, it is not just the wealthy that suffer, but potentially everyone. With a globalized system, a credit crunch can ripple through the entire (real) economy very quickly turning a global financial crisis into a global economic crisis.

Objectively, Nigeria has sets of problems. As the most populous country in Africa, there is always demographic pressure on finances, but the situation could be exacerabated by regional differences in ethnic but also economic terms (GSDRC 2009:15), and to considerable external shocks stemming from price booms and busts in international commodity markets. In the table below "Nigeria falls in the highly potential flash points in the global financial crisis.

Table 1: Potential Flash-Points in Sub-Saharan Africa

Risk of vulnerability to financial crises	Critically weak	Weak	States to watch
High	Somalia (1) + Congo, Dem. Rep of (3) + Burundi (5) Sudan (6) Central African Rep. (7) Liberia (9) Cote d'Ivoire (10 Angola (11) Nigeria (28)	Zambia (32) Mauntania (37) Djibouti (38) Lesotho (53)	Ghana (84)
Medium	Sierra Leone (13) Eriterea (14) Chad (16) Ethiopia (19) Congo, Rep. of (20) Niger (21) Guinea (23) Rwanda (24) Togo (26)	Cameroon (29) Comoros (31) Mozambique (39) Burkina Faso (44) Malawi (46) Madagasiar (49) Tanzania (55)	Sao Tome and Principe (61) Benin (71)
Low	Guinea-Bissau (18) Uganda (27)	Kenya (50) Gambia, (51) Mali (52)	Senegal (68)

Degree of State Weakness (Using Brookings Index)

N/B:

1. Bracketed numbers indicate the ranking on the Brookings index

2+ the bottom three ranked countries are classified as "failed states".

Source: GSDRC 2009:15 (Data from Rice and Patrick (2005) and Gamo (2009).

Links between Financial Crisis and Food Security

Food security, as stated earlier, bears relevance to quantitative and qualitative food extraction, storage, distribution and efficient commodity pricing, which is dependent on domestic and foreign financial conditions.

The World Bank (in respect to financial crisis) forecasted (for 2009) that commodity prices will nosedive to between 20-25%. An overlay of the above facets of the global financial crisis therefore portends that should Africa and indeed Nigeria, remain complacent, the effects of the financial crunch will be very considerable for the continent. No nation has been able to reduce poverty substantially and bring about development without first increasing the productivity of its agricultural and food system. Also critical global issues which are closely related to agriculture and food system such as resource management and property reduction are linked to financial crisis.

The root cause of the crisis in the Nigerian economy lies in the neglect of agriculture and increased dependence on a mono-cultural economy based on oil (Ajero, 2009:14). The ‘‘gross dependence on oil has destroyed virtually every incentive to diversify the economy by negating due attention to the application of technology to agricultural and industrial sectors’’ (Akpuru-Aja, 2001:9).

Olatunbosun (2009:) maintained that “agricultural sector had the potential to be the industrial and economic springboard from which …development could take-off’’ considering, for instance, that Nigeria ‘‘ has eleven River Basin Development Authorities created in 1976 by the federal government to harness the country’s water resources and optimise Nigeria agricultural resources for food self-sufficiency”.

Africa, as well as Nigeria’s economy, is much attached to the U.S and Western Countries. ‘‘The eventual collapse of the U.S economy would create a lacuna in world affairs’’ (Omoh, 2008), which will affect the continent greatly. The price rises, caused by financial crisis, “affected parts of Asia and Africa, particularly severe with Burkina-Faso, Cameroon, Senegal, Mauritania, Coted’-Voire, Egypt and Morocco seeing protests and riots in late 2007 and early 2008 over unavailability of basic food staples. Other countries which have seen food riots or are facing related unrest are Mexico, Bolivia, Yemen, Uzbekistan, Bangladesh, Pakistan, Sri-Lanka and South Africa, (World Food Crisis-Wikipedia Encyclopaedia). In Africa “the countries that are most likely to become flash –points are Somalia, DRC, Burundi, Sudan, Central Africa Republic, Liberia, Cote d’voire, Angola and Nigeria, Olatunbosun (2009). In addition to financial shock “ Sub-Saharan Africa is also reeling from food and fuel price shocks of 2007-2008” (Bakrania & Lucas, 2009:13).

The U.N Food and Agricultural Organization (FAO) noted that ‘‘30% of Africans are chronically hungry (evident among children under five)’’ which could be worse because of ‘‘Strong likelihood of decline in revenue from exports in African countries’’ (CBN, 2009). Agriculture is still regarded as a vocation for the illiterate in the rural areas, in Africa, who have nothing better to do. The big farmers, politicians, Retired Generals and businessmen –engage largely in crops or animals cultivation that are not common staples ...they have pineapple plantation ,ostrich and other exotic forms that add nothing to our quest for food security (Ekpu, 2009:13)

The FAO at world summit on food security at its headquarters in Rome in Nov 2008 noted that food prices have remained high in developing countries, and global food security situation has worsened. In December 2008, the global economic meltdown, decrease in oil prices and speculations of decreased demand for commodities worldwide brought about sharp decreases in the price of stable crops from their earlier height (Wikipedia - Global Financial Crisis of 2008-2009). However, the FAO warned against ‘‘a false sense of security’’ noting that the credit crisis could cause farmers to reduce planting.

Effects of Global Financial Crisis

Global financial crisis presupposes that global finance is undergoing a decision change with undesirable outcomes. The crisis affects developing nations multi-dimensionally in four major ways viz.

A. Food Crisis

About 900 million people all over the world are facing food crisis and possible food starvation, and more than half of this number is from Africa (Ikpe, Nzenwa and Odoemena, 2009;15). Mba (2008:25) observed that in 2008 alone rising food prices pushed 100 million people world wide below poverty line… which sparked off riots in some countries like Bangladesh, and Egypt where government ministers discovered high food and fuel prices as the first real economic crisis ….”

In June 2008, “$1.2 billion in food aid was committed for the 75 million people in 60 countries hardest hit by rising food prices” (2007-2008 World Food Price Crises Wikipedia Encyclopaedia) by FAO. The World Bank in April 2008 “increased loans to African farmers and emergency monetary aid to badly affected areas such as Haiti” and on 28, April 2008, The U.N. Secretary General, Bank Ki-Moon established a task- force on the Global food security crisis under his chairmanship and composed of the heads of the U.N. specialized agencies funds and programmes, Bretton Woods institutions and relevant part of the U.N. secretariat to co-ordinate efforts to alleviate the crisis (Wikipedia- 2007-2008 World Food Price Crisis)

A country like Nigeria, richly endowed, “spends more than $2 billion annually to import 1.6 million tons of fish yearly. The country is also the highest importer of rice and wheat in Africa” (Newswatch, 2009). The administration of Musa Yar’Adua in order to cushion the effect of food crisis occasioned by financial meltdown, imported “food worth N80 billion from countries that are less endowed” (Ikpe, Nzenwa & Odoemena, 2009:18).

Recent World Bank report, incisively reported that “global food prices increased by 83 percent. And that food prices are expected to remain high through out 2008 and 2009… through 2015 for most food crops (This Day, 2008). This portends gloomy future for developing countries particularly sub- Saharan African where restiveness seems endemic.

B. Foreign Direct Investment (FDI) and Equity Investment:

2007 was a record year for FDI to Nigeria and other developing countries. Currently, equity finance is under pressure and corporate project finance is already weakening. There is a withdrawal of portfolio investment as a result of contagion effect which has caused reduction in stock prices. In view of this “remittances to Africa which had peaked to $20 billion a year in 2008, declined by 4.4% in 2009 (Ratha, 2009). Remittances constitute an increasing important source of external financing for Least Industrialized Countries (LICs) and are integral to poverty reduction at a household level.

The deteriorating economic and political environment in some developing countries, as well as the increased volatility of global markets, have led to a reduction of portfolio inflows in Sub-Saharan African countries with developed stock markets such as South Africa, Nigeria, Kenya and Uganda. Subsequently, the current financial crisis is likely to result in foreign investors reducing their investments in the region. A visible manifestation of this has been the postponement, closure, and cancelling of mining investment (Bellsrania & , 2009). The immediate consequence of this is that the revenue base of these countries is weakened irretrievably.

Health

Financial crisis has further increased cuts in social services such as health, education etc. Africa is regarded as a “sick continent”. It contributes about 2% to the global economy. Greater percentage of her revenue is channelled to health matters such as malaria, tuberculosis, HIV/AIDS and other related issues.

Some African countries have already started to cut their health and HIV budgets due to economic crisis. Their health budgets and resources have been constrained for many years already, so this crisis makes a bad situation worse. Sub-Saharan Africa only accounts for one percent of global health expenditure and two percent of global health work force. Currently, only one third of HIV-positive Africans in need of antiretroviral (ARV) treatment can access it. However, it is not just poor nation's health funds at risk, even international donor organizations have started to feel the financial crunch (Sha, 2009). It concluded by saying that the global fund to fight AIDS, tuberculosis and malaria recently announced is at least $4 billion short of the money. It will need to continue funding essential HIV, TB and malaria services in 2010. It is reported that, "there is a $10.7 billion funding gap for regional implementation of global plan to stop TB alone (Palitza, 2009).

Development

Fragile states are vulnerable to financial shocks because of their dependence on remittances, concessional financing, and primary commodity export and oversees aids, level of which have been affected by the financial crises (World Bank, 2009). The impacts are further accentuated by poor governance, institutional corruption, repressive and corrupt security services and a high degree of patrimonalism.

In fragile states the inability of governments to provide basic services and goods coupled with increased unemployment, rising costs of living and increased poverty is likely to further aggravate pre-existing levels of violence, conflict, criminality and public unrest against already weak governments. There are also likely to be longer-term consequences which could seriously derail efforts towards achieving sustainable security and development.

The poor countries do get foreign aid from richer nations, but it cannot be expected that current levels of aid (low as they actually are) can be maintained as donor nations themselves go through financial crisis. Domestic tax revenues account for just 13% of low income countries earnings whereas it is 36% for the rich countries.

Ways Forward for Developing Nations

1. The current global financial crisis require better understanding of appropriate policy responses which can be applied according to national and/or regional peculiar needs.
2. There should be provision of social security schemes through adequate understanding of the social relationship/system. While intervention in social welfare areas are important they are unsuitable if there is no investment in governance or security to support local population.
3. There is need to make realistic agricultural policies that reflect adequately programmes that will enhance food production and promote ecological friendly processes.
4. It is vital to strengthen domestic market, increase co-operation and regional integration and regional institutions with multiple effects to enhance South-South co-operation particularly in sub-Saharan Africa.
5. Importation of food should serve as interim measures, governments should develop their river basins and numerous agricultural projects scattered in different developing nations.
6. Instructive are the views of Bill Clinton, former U.S President, at UN World Food Day: (October 16, 2008) that "food is not a commodity like others. We should go back to a policy in which food self sufficiency is maximized. It is crazy for us to think we can develop countries around the world without increasing their ability to feed themselves".
7. Financial panic, marked by overpowering alarm, in financial or commercial circles leading to a sudden and drastic restriction of credit and great shrinkage in commodity and property prices should be avoided. It often leads to undue expansion of bank loans, over extension of commercial credits, widespread speculation, or unsound government fiscal policies.

8. The capital flight developing countries are witnessing is as a result of U.S., British and other major economies (whose economy has collapsed as well) are withdrawing funds to pay creditors in their home countries who are either going bankrupt or they themselves are in deep financial problems. Therefore developing countries should enhance their monetary and fiscal policies and put in place mechanisms to checkmate undue capital flight from their economies.
9. Functional food intelligence network should be established across developing countries. Operationally, the outfit should cover domestic and foreign food and agricultural matters, and locally focuses on government organs, policies on food and food production. Externally, it should focus on international discoveries in genetic engineering that will enhance food production in the country, and maintain a strong link with International Food Organizations like U. N. Food and Agricultural Organizations (FAO).
10. Also, instructive is that government should ensure increased flow of resources for the rehabilitation of traditional agricultural exports, if not to export, at least to help reduce the importation of products like palm oil, vegetable oil, rice (Newswatch, August 3, 2009) and other products that can be produced locally thereby reduce import dependency of the developing countries.
11. Government needs to build more silos and preservation centres at local and regional levels to serve as storage points in time of surplus agricultural produce. Mba had argued that agricultural produce "have been enough but the management of yields remain too poor that there are a lot of wastages" and this has caused the pains developed countries feel, the poverty among developing countries, the misery in Africa, and the tragedy facing mankind across the globe.

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