

Rising world food prices: impact on the poor

The drastic rise in world food prices has crucial implications for the livelihoods of the poor by placing their food security and nutrition at high risk. While the recent price developments can help reduce urban-rural income gaps, most poor households in rural areas will be adversely affected because they are net buyers of food. In response to surging food prices, the poor tend to shift to even less-balanced diets, with adverse impacts on health in the short and long run. Some governments are re-introducing policies attempting to mitigate the price effects but often these policies distort incentives, are costly for the economy, and do not reach many of the poorest.



Rising food prices will particularly hurt poor households as they have to shift to less-balanced diets.

high cereal demand trend is likely to continue and spread globally. Projections by the International Food Policy Research Institute (IFPRI) show that by 2015, global cereal demand will increase by up to 20 percent across

all regions. By 2050, demand will have increased by more than one-third in East Asia and the Pacific, and threefold in sub-Saharan Africa.

Slowing growth in productivity does not meet growing demand

On the supply side, however, land and water constraints, climate change, and underinvestment in agriculture innovation are impairing productivity growth and the necessary production response. Between 2000 and 2006, cereal supply increased by a mere 8 percent, and stocks declined to low levels. Yields are growing very slowly in most regions; for example, yields for corn grew by only 0.7 percent between 2000 and 2006, compared to 4 percent in the 1960s and 1970s. Due to climate change, yields in developing countries are projected to decrease by 15 percent by 2080. Overall productivity growth in

agriculture has also been too low to cope with the rapidly growing demand. Total factor productivity is about 1.3 percent per annum in most regions, although it is closer to 2 percent in China. Nonetheless, growth in global public agricultural research and development expenditures, especially in developed countries, has slowed down.

Supply and demand changes, however, do not fully explain the sharp rise in food prices. Other important factors include production shocks (such as Australia's drought) and reduced grain stocks, which make the markets more and more nervous the smaller the stocks become. Financial investors are becoming increasingly interested in rising commodity prices, and speculative transactions are adding to increased food-price volatility. The trade restrictions triggered by high prices in many countries further narrow the global market and result in "starving your neighbour" policies.

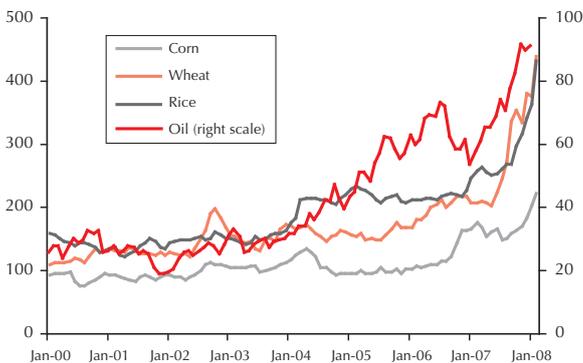
The rise in cereal prices resulting from growing demand, irresponsive supply and other developments has been dramatic. Since the beginning of 2000, the price of wheat has increased more than threefold, while the prices of corn and rice have more than doubled. When adjusted for inflation, the price increases are lower, but still drastic. The high global agricultural prices do not appear likely to fall soon. According to IFPRI's global scenario analysis (based on the International Model for Policy Analy-

Strong and new forces of change in the world food equation are transforming food consumption, production, and markets. Today, the global system of agriculture is largely driven by surging demand. Income growth, globalisation and urbanisation have caused the consumption for agricultural products to grow and shift toward high-value commodities. Since 2000, cereal use for food and feed has increased by 4 and 7 percent respectively while cereal use for industrial purposes – such as biofuel production – has increased by more than 25 percent. With calls for energy security remaining strong, this

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World commodity prices, January 2000 – February 2007 (USD/ton)



Source: FAO, 2008. *International commodity prices database*.
IMF, 2007. *World economic outlook database*.

sis of Agricultural Commodities and Trade - IMPACT), real world prices for rice, wheat, and maize will increase by about 20 to 30 percent by 2015, and up to 40 percent by 2050. In addition, beef, pork and poultry prices are projected to increase by up to 10 percent in the next decade, and by 35 percent by 2050.

Energy and biofuels

Biofuel production contributes to the changing world food equation and adversely affects the poor through price-level and price-volatility effects, as well as through ill-designed bioenergy programmes. The production of ethanol and biodiesel, which largely draws on natural vegetation, has contributed to the increase in food prices and their stronger correlation with energy prices. IFPRI's global scenario analysis projects that biofuel expansion may result in price increases of 26 percent for maize and 18 percent for oilseeds by 2020. As new linkages and trade-offs are created between the agricultural and energy sectors, agricultural commodity prices are also becoming increasingly correlated to energy prices. The worrisome consequence is that volatile energy prices will translate into larger food-price fluctuations.

Many countries have already established ambitious biofuel expansion plans and blending targets, yet biofuel production remains uncompetitive in several areas throughout the world. Second-generation biofuel technolo-

gies, which may lessen the food-fuel competition and the negative effects on the poor, are still a long way away. Although it makes sense for many countries to wait for the emergence of second- and third-generation technologies and "leapfrog" onto them later, some governments have adopted subsidy regimes for biofuels and biofuel feedstocks that undermine the comparative advan-

tage of developing countries. In addition, subsidies for biofuels that use agricultural production resources implicitly act as a tax on basic food, which constitutes a large share of the expenditures of the poor.

Climate change

Climate change risks will have an adverse impact on food production and will create new food insecurities for the poor. Low-income countries with limited adaptive capacities to climate variability and change are faced with significant threats to food security. In many African countries, for example, agricultural production and access to food will be negatively affected, thereby increasing food insecurity and malnutrition. Projections show that land suitable for wheat production in Africa will almost disappear.

There are viable mitigation strategies for the agricultural sector in the developing world and for poor people. However, in order to achieve them, key constraints need to be overcome:

- 1 A new and more comprehensive post-Kyoto international climate change regime must be negotiated;
- 2 The rules of access to carbon trading – which still do not credit developing countries for reducing emissions by avoiding deforestation or improving soil carbon sequestration – must change, and,
- 3 The operational rules, with their high transaction costs for devel-

oping countries and small farmers and foresters in particular, must be streamlined. In addition, carbon offset rules should encourage the participation of small farmers and agroforestry producers.

Impacts of high prices on the poor

Increasing agricultural prices will have uneven impacts across countries and population groups. Countries that are net exporters will benefit from improved terms of trade, while net importers will struggle to meet domestic food demand. As almost all countries in Africa are net importers of cereals, they would be hard hit by rising prices. Surging and volatile food prices also hit those who can afford it the least – the poor and food insecure. The few poor households that are net sellers of food would benefit from higher prices, but households that are net buyers of food, which represent the large majority of the world's poor, would be negatively impacted. Adjustments in the rural economy, which can create new income opportunities, will take time to reach the poor.

The nutrition of the poor is also at risk because higher food prices will induce them to limit their food consumption and shift to even less-balanced diets, with adverse impacts on health in the short and long run. A one-percent increase in the price of food in low-income countries leads to a 0.6-percent decrease in food spending. At the household level, the poor spend about 50 to 60 percent of their overall expenditures on food. For a five-person household living on 1 US-Dollar (USD) per person per day, a 50-percent increase in food prices removes up to 1.50 USD from their 5 USD budget, and growing energy costs also add to their adjustment burden.

Rising food prices pose an additional challenge to improving the livelihoods of people at the bottom of the income scale and including them in the growth process. More than 400 million small farms in the developing world hardly



Photo: laif

Since 2000 the price for rice has doubled. IFPRI expects a further increase of about 20-30 percent by 2015.

medium run requires immediate expansion of social-protection measures, nutrition interventions and supporting programmes. Although

it must be adjusted to the individual circumstances of each country, social protection could include employment programmes, conditional and unconditional cash transfer programmes and social security systems that target the poorest by focusing on enhancing early childhood nutrition programmes. These interventions should be complemented by a rapid increase in investment in rural infrastructure and market institutions, which would reduce agricultural-input access constraints. This investment should be supported by good governance practices. In addition, developed countries should stop subsidising biofuel production and should facilitate flexible responses to drastic price changes by eliminating trade barriers and programmes that set

aside agriculture resources, except in well-defined conservation areas.

Increased production driven by higher yields (and not by area expansion) and increased productivity in the livestock sector depend on technological progress and require substantial investments in research and development. A global science and technology initiative for accelerated agriculture productivity is needed to respond in the long run to rising prices and other challenges such as climate change, continuing population growth, and food quality and safety. This global initiative makes economic sense, is pro-poor and serves security. It should be based on new partnerships among old and new players such as the United States, Europe, China, India, Brazil, United Nations agencies, the Consultative Group on International Agricultural Research, foundations, and the private sector.

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appear on the radars of economic policy-makers, although the households connected to these farms are home to the majority of the world's hungry and poor people. At the same time, about 160 million people in the world continue to live in ultra poverty, on less than 50 cents a day. In times of hardship, the poorest suffer silently for a while, but the middle class typically has the ability to organise, protest, and lobby early on – the rising prices of tortillas in Mexico and soybean in Indonesia have already led to mass riots.

Towards a balanced pro-poor strategy

Mitigating the growing price burden for the poor in the short and

Zusammenfassung

Der dramatische weltweite Anstieg der Lebensmittelpreise hat verheerende Auswirkungen auf die Einkommenssituation der Armen, weil ihre Nahrungssicherheit und Ernährungsqualität dadurch stark gefährdet werden. Zwar tragen die Preisentwicklungen der letzten Zeit zur Verkleinerung der Einkommensschere zwischen Land und Stadt bei, dennoch werden die meisten armen Haushalte in den ländlichen Gegenden unter der Entwicklung leiden, weil sie mehr Lebensmittel kaufen als erzeugen. Bei steigenden Lebensmittelpreisen neigen gerade die Armen zu einseitiger Ernährung, die sich wiederum kurz- und langfristig gesundheitlich auswirkt. Die Kombination aus rasantem Preisanstieg, hoher Volatilität der Preise und ungeeigneten politischen Maßnahmen stellt gleichzeitig eine Gefahr für den

freien Handel und die politische Stabilität in vielen Ländern dar. Um die wachsende Belastung der Armen zu lindern, wird eine doppelte Strategie benötigt: eine wissenschaftlich-technologische Initiative auf globaler Ebene zur Bewältigung des langfristigen Problems und eine umfassende soziale und ernährungspolitische Initiative auf nationaler Ebene zur Lösung der kurz- und mittelfristigen Probleme.

Resumen

El drástico aumento en los precios mundiales de los alimentos conlleva implicaciones cruciales para el sustento de los pobres, pues genera un riesgo considerable para su seguridad alimentaria y su nutrición. Mientras que las recientes evoluciones de los precios pueden ayudar a reducir las brechas entre los ingresos urbanos y rurales, la mayoría de los hogares

pobres en las áreas rurales se verán afectados negativamente, porque son compradores netos de alimentos. En respuesta al alza de los precios de los alimentos, los pobres tienden a adoptar dietas menos balanceadas, lo cual crea un impacto adverso sobre su salud a corto y largo plazo. La combinación de rápidos incrementos de precios, la riesgosa volatilidad de los precios y las respuestas políticas inadecuadas también plantea una amenaza para el libre comercio y la estabilidad política en muchos países. Para mitigar la creciente carga que amenaza a los pobres, se requiere una estrategia dual: una iniciativa científica y tecnológica a nivel global para solucionar el problema a largo plazo, y una iniciativa integral de protección social, alimentos y nutrición a nivel nacional para afrontar los problemas a corto y medio plazo.