



World Food
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The Food Aid Organization of the United Nations

WFP Media Backgrounder

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RISING FOOD PRICES: IMPACT ON THE HUNGRY

Rising food prices, which are affecting millions of people, are rooted in increased energy prices, competition between biofuels and food, rising demand from economic growth in emerging economies, and increasing climatic shocks such as droughts and floods. The people hit hardest by this combination of factors are those living on the razor's edge of poverty.

As never before, policymakers are being confronted by increasingly complex challenges occurring simultaneously. Meanwhile, food reserves are at their lowest for 30 years and commodity markets extremely volatile, subject to sudden spikes and speculation. The situation has been exacerbated by the falling value of the dollar, which is the currency in which all major commodities are traded.

Skyrocketing prices are hitting the world's poor the hardest – those who already spend 60 percent, sometimes even 80 percent – of their budget on food. These groups include the rural landless, pastoralists and the majority of small-scale farmers. But the impact is greatest on the urban poor.

The price rises are producing what we're calling the 'new face of hunger' – people who suddenly can no longer afford the food they see on store shelves because prices have soared beyond their reach. It's not a matter of availability, as one would see in a drought-like situation. It's about accessibility and it's hitting hard urban populations who are reliant on the markets.

Higher food prices are already causing social unrest around the world. Lives were lost earlier this month in Haiti this month during several days of unrest. In recent weeks there have also been strikes in Argentina and food riots in Burkina Faso, Cote d'Ivoire, Cameroon, Egypt, Indonesia and Senegal.

In developing countries across the world, the price crunch means that families which may have had a bit of money to pay school fees for their children, to go to clinics when they are sick, or take much-needed nourishing food together with anti-retroviral drugs, will suffer as they will cut back in these areas. They will also start cutting meals and substituting less



nutritious foods.

As they struggle to cope, we risk seeing a major setback in the Millennium Development Goals which the world committed itself to reaching by 2015 - the first one being to reduce the proportion of hungry people by 2015. Food is the foundation for six of the other MDG goals¹ -- more hunger and more suffering today points to a potential erosion of the hard-won progress we have made.

WFP's call to action

On March 20 WFP Executive Director Josette Sheeran sent a letter to 20 heads of government, calling on them to step up and make an emergency allocation to our newly created special account to offset the rising costs associated with procuring and delivering food.

WFP aims to feed 73 million people in 78 countries in 2008. In the middle of last year it estimated that meeting this goal would cost US\$2.9 billion – already a huge sum. But since then WFP's commodity costs alone have gone up by **55 percent**.

Due to increased prices of food and fuel, WFP estimates it will need at least half a billion dollars more than it anticipated to meet approved projects in 2008. That takes WFP's operational budget for the year to US\$3.4 billion.

And we are only in April -- much lies ahead in 2008. There are the natural catastrophes that no one can predict and which could devastate hundreds of thousands of lives. The people affected will look to WFP for help for their survival.

WFP is working to avoid the need to cut rations or to reduce the number of people to be fed in 2008. We are doing everything possible to mobilize world attention and support – through governments, the private sector and individuals – to stave off such drastic measures.

The way forward

WFP is working with traditional donor governments, the private sector, foundations and academic institutions, as well as governments in beneficiary countries. This is both to meet the new funding needs and to help provide safety nets for the poorest and most vulnerable.

An urgent expansion of safety nets is necessary because poor families are already eating less food and specifically less nutritious food. The resulting undernutrition will affect young children in particular – effects that will be felt for years in the form of longer-term poverty and lower economic growth [new IFPRI research shows that kids given proper nutrition up to the age of two earned 50% more wages 30 years later].

To gain a better understanding of the situation, WFP has met with experts from think tanks, academic and operational organizations and NGOs, the Food and Agriculture Organization,

¹ MDG Goals are: 1) Eradicate extreme poverty and hunger; 2) Achieve universal primary education; 3) Promote gender equality and empower women; 4) Reduce child mortality; 5) Improve maternal health; 6) Combat HIV/AIDS, malaria and other diseases; 7) Ensure environmental sustainability; 8) Develop a global partnership for development. Food is seen as fundamental for the first seven.



the USAID Famine Early Warning System (FEWSNET), the Overseas Development Institute and the International Food Policy Research Institute

While high prices on national and international markets are an opportunity to refocus on agriculture and rural development in poor countries, with a particular emphasis on small farmers, continued and persistent investments will be required. In the shorter term, efforts to protect the livelihoods of those suffering the effects from price hikes are a top priority.

Major drivers of high food prices:

- 1) **rise in oil and energy prices** which affect the entire value chain of food production, from fertilizer to harvesting to storage and delivering;
- 2) **economic boom** in some developing economies, creating increased demand for cereals (ie change in diet to include higher valued foods like meat);
- 3) **weather-related events** meaning **bad harvests eg** multiple Australia droughts;
- 4) **competition between food and fuel --** shift to biofuels production leading to market speculation, eg food prices such as palm oil set at fuel prices.

Useful Stats

- Of the 5.1 billion people who live in the developing world, 1.2 billion still confront the ravages of poverty every day.
- Approximately 1 billion people still live on less than US\$ 1 dollar a day, the threshold defined by the international community as absolute poverty, below which survival is in question.
- 162 million of those are the ‘ultra poor’, living on less than dollar a day, and trapped in a vicious cycle of hunger and poverty.
- 854 million people in the world are food insecure while 170 million children are undernourished.
- The world’s urban population has grown more than the rural population; within the next three decades, 61 percent of the world’s populace is expected to live in urban areas.
- While poverty has traditionally been concentrated in rural areas, the urban share of the poor increased from 19 percent in 1993 to 25 percent in 2002. Still, 75 percent of the poor in developing countries continue to live in rural areas.
- With increased risk of droughts and floods due to rising temperatures, crop-yield losses are expected eg in more than 40 developing countries, mainly in sub-Saharan Africa where some experts expect cereal yields to decline with average losses of about 15 percent by 2080.
- By 2025, there will be 1.6 billion more people on the planet, putting even more stress on limited resources.

The impact in parts of the world where WFP has operations:



West Africa

- High prices of basic commodities in West Africa are impacting people's purchasing power, especially in countries such as Mauritania that depend on imports to feed themselves. If the prices continue to rise, the 2008 'lean' season – the months before the harvest when stocks are low – could start early for many households.
- Governments in the region have already taken measures to prevent a sustained increase in food prices, such as reconstituting cereal stocks in risk zones before the rainy season begins, providing price subsidies, and increasing the purchasing power of vulnerable populations by supporting off-season cash-crop agricultural production.
- WFP's food and operations costs are now 30 percent higher than at the same time last year because of increases in basic food commodities. An additional US\$183 million are therefore needed for the region.
- If WFP does not receive additional funding, it will become extremely difficult to help people as the situation deteriorates. The higher cost of fuel for transport will also weigh on our budget as many countries depending on imports are landlocked.
- **Mauritania's** president announced a US\$ 112 million emergency plan to fight the impact of high food prices on April 5th. The plan aims to increase food assistance to the poor, increase availability of basic food commodities in the domestic market and boost local agricultural production.
- Mauritania depends on imports for 70 percent of its food needs. High cereal prices on the international market are leading to an access crisis. Traders are having serious problems importing, mainly due to cash flow constraints. Wheat and sorghum prices have increased by 40 percent since May 2007 and vegetable oil prices by 25 percent during the same period.
- **Sierra Leone** the price of rice rose by almost 40 percent during 2007. In the same period the price of palm oil increased by about 50 percent, and that of bread (wheat flour) by 25 percent. In January 2008, the Bread Manufacturers Association called its members out on strike against the rising price of wheat flour, which is manufactured locally with imported wheat.
- In **Guinea Bissau** the price of imported rice remains 25 percent above the October 2007 level. The high prices for the national staple may cause hardship when household cereal stocks from the 2007 harvest run out. The most recent food security monitoring survey indicated that some 14 percent of rural households are either moderately or severely food insecure, with that proportion expected to rise as the lean season (June to October) approaches.

Mideast

- The high price phenomenon comes against a background of worrying food production forecasts. A report issued in March by FAO states that agriculture in the Middle East is likely to suffer losses because of high temperatures, droughts, floods and soil degradation.
- Price rises have an impact on WFP's operations in the region. At present we are providing food to nearly four million people in the Mideast – in Iraq, Syria, Yemen, Egypt and the occupied Palestinian territory.
- Food price rises are having a catastrophic effect on the **Syrian** economy and the ability of the Government to introduce economic reform measures. Price rises are coinciding with a reduction in oil production (the Government's main source of



income). The result is an increase in the number of people needing support and mounting pressure on the social welfare system.

- Newspapers in **Egypt** are reporting that people have started to go for inferior commodities lacking in nutritional value; they are buying less and less meat/poultry/cheese and they are also cutting down on expenses for education and health expenses, etc.
- To address the concerns about rising food prices, the Government of **Egypt** has had to boost its spending on subsidies to the poor from 20 billion Egyptian pounds (US\$4 billion) to 30 billion Egyptian pounds (US\$6 billion). This includes increased spending on bread subsidies from 9 billion Egyptian pounds to 15 billion Egyptian pounds.
- On 13 February, the **Iraq** Parliament approved the 2008 Budget and allocated US\$3.6 billion to the Public Distribution System (PDS) to ensure that food distribution would continue to people in Iraq. Due to commodity price rises worldwide it is difficult to say whether this allocation will be enough to cover the entire year.
- WFP has requested \$87.5 million to help feed its caseload of more than 750,000 displaced people in **Iraq**. It has recently estimated it needs an additional US\$9 million to cope with rising food and fuel prices.
- **Yemen**, which imports around 75 percent of its food requirements, is feeling the impact of rising food prices as so many households spend a large proportion of their income on food. The price of wheat has doubled since February. Other consumer goods have also seen sharp price rises.
- The Government of **Yemen** is trying to stabilize the market by encouraging more local wheat production and the creation of more silos to store the wheat. It's also encouraging the production and/or importation of mixed (red) wheat which is more nutritious than white (soft) wheat.

Latin America

- The situation has been particularly harsh in **Central America** where in the past year the price of maize, the key staple food crop, has nearly doubled. The price of beans, another staple commodity, also reached unprecedented levels, partly because of unfavourable weather conditions.
- According to a USDA study, Latin America is likely to bear the brunt of a food price shock. The food gap (the amount of food needed to raise consumption of all income groups to the recognised minimum) could rise 24 percent by 2016, compared to 8.7 percent in Asia and 6 percent in Sub-Saharan Africa.
- Due to escalating market prices, in rural **El Salvador**, with the same amount of money today people can purchase 50 percent less food than they did 18 months ago. This means that in principle their nutritional intake, on an already poor diet, is being cut by half.
- In **Nicaragua** the price of tortilla went up 54% between January 2007 and January 2008.
- In **Guatemala** a 10-percent increase in the quota of tariff-free imports of maize has been announced. Authorities are concerned about possible increases in food prices during the lean season (May-July 2008) and particularly about processed cereals (tortillas) consumed in urban areas.



- In response to this situation, WFP is presently trying to determine the impact of rising food prices on the region's poor with a view to anticipate future trends and support national Governments in the region in the adoption of effective intervention and mitigation strategies.

Asia

- WFP's purchase cost for rice in Bangkok was US\$ 460 per metric ton on March 3. Five weeks later, it is now US\$ 780.
- At the end of January, **Afghanistan** President Hamid Karzai appealed for US\$77 million to help feed an additional 2.5 million people, now hungry because of rising food prices. WFP Food distributions to urban Afghans unable to afford staples began in March.
- Average wheat prices in Afghanistan have increased by 67 percent since the start of 2007; on average, Afghans who are not engaged in agriculture now spend 75 percent of their income on food.
- Wheat prices in **Tajikistan** have increased by 128 percent over the last year, whilst wheat flour prices increased on average by 76 percent. The prices of vegetable oil have increased by 126 percent during this period.
- The Tajikistan government has appealed to the international community for help with fuel and food, reporting to WFP that up to two million people might be in need of food assistance in the coming weeks.
- The price of rice has risen between 25 and 30 percent throughout **Bangladesh** over the last three months. In 2007, the price of rice rose around 70 percent.
- **Cambodia** has been producing a rice surplus since 1996. However, in 2007, so much rice was exported to neighbouring countries to cash in on the higher prices paid by foreign traders that normally self-sufficient Cambodians now face a rice gap.
- WFP in Cambodia risks having to cutting school feeding activities mainly due to price increases. Existing donations had been expected to last until August 2008 but price rises could make the school breakfast programme for 450,000 children unfeasible.
- Partly as a result of increased commodity prices and connected unrest, the **Indonesian** Government has recently expanded its rice subsidy programme by 50 percent. The Government plans to provide subsidized rice to an estimated 80 million people.

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