

The State of Food Insecurity in the World

How does international price volatility affect domestic economies and food security?

- What was the impact of the 2006–08 world food price crisis on food security – and why were some countries and regions able to cope better than others?
- What do recent trends tell us about the likelihood of high and volatile food prices continuing?
- Do high and volatile food prices offer smallholder farmers potential benefits, as well as costs? What needs to be done to change the balance?
- What is the role of trade policies and buffer stocks in preventing or mitigating domestic price volatility?
- What steps can be taken, by countries and by smallholder farmers, to manage the risks of production and price shocks?
- How can targeted safety nets be designed and put in place to protect the most vulnerable from the negative impacts of volatile food prices?
- What types of investment are needed to ensure the increased productivity, sustainability and resilience of agriculture and alleviate food insecurity?



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The food and economic crises of recent years are challenging our efforts to achieve the Millennium Development Goal of reducing the proportion of people who suffer from hunger by half by 2015. This edition of *The State of Food Insecurity in the World* focuses on food price volatility and high food prices, which are likely to continue in the years ahead. Indeed, the Group of Twenty (G20) Finance Ministers and Central Bank Governors has become actively engaged in finding cost-effective ways to reduce price volatility and mitigate its effects when it does occur. By using previously unavailable data sources and studies, this report goes beyond the global-scale analyses to find out what happened on the domestic markets where poor people buy and sell their food in order to draw policy-relevant lessons from the world food crisis of 2006–08.

The report emphasizes that the impact of world price changes on household food security and nutrition is highly context-specific. The impact depends on the commodity, the national policies that affect price transmission from world markets to domestic markets, the demographic and production characteristics of different households and a range of other factors. This diversity of impacts, both within and between countries, points to a need for improved data and analysis so that governments can implement more effective policies. Better and more predictable policies can not only reduce unwanted side-effects on other countries, but can simultaneously reduce food insecurity and domestic price volatility at home.

KEY MESSAGES OF THE REPORT

- **Small import-dependent countries, especially in Africa, were deeply affected by the food and economic crises.** Some large countries were able to insulate themselves from the crisis through restrictive trade policies and functioning safety nets, but trade restrictions increased prices and volatility on international markets.
- **High and volatile food prices are likely to continue.** Demand from consumers in rapidly growing economies will increase, population will continue to grow, and further growth in biofuels will place additional demands on the food system. On the supply side, there are challenges due to increasingly scarce natural resources in some regions, as well as declining rates of yield growth for some commodities. Food price volatility may increase due to stronger linkages between agricultural and energy markets, as well as an increased frequency of weather shocks.
- **Price volatility makes both smallholder farmers and poor consumers increasingly vulnerable to poverty.** Because food represents a large share of farmer income and the budget of poor consumers, large price changes have large effects on real incomes. Thus, even short episodes of high prices for consumers or low prices for farmers can cause productive assets – land and livestock, for example – to be sold at low prices, leading to potential poverty traps. In addition, smallholder farmers are less likely to invest in measures to raise productivity when price changes are unpredictable.
- **Large short-term price changes can have long-term impacts on development.** Changes in income due to price swings can reduce children's consumption of key nutrients during the first 1 000 days of life from conception, leading to a permanent reduction of their future earning capacity, increasing the likelihood of future poverty and thus slowing the economic development process.
- **High food prices worsen food insecurity in the short term.** The benefits go primarily to farmers with access to sufficient land and other resources, while the poorest of the poor buy more food than they produce. In addition to harming the urban poor, high food prices also hurt many of the rural poor, who are typically net food buyers. The diversity of impacts within countries also points to a need for improved data and policy analysis.
- **High food prices present incentives for increased long-term investment in the agriculture sector, which can contribute to improved food security in the longer term.** Domestic food prices increased substantially in most countries during the 2006–08 world food crisis at both retail and farmgate levels. Despite higher fertilizer prices, this led to a strong supply response in many countries. It is essential to build upon this short-term supply response with increased investment in agriculture, including initiatives



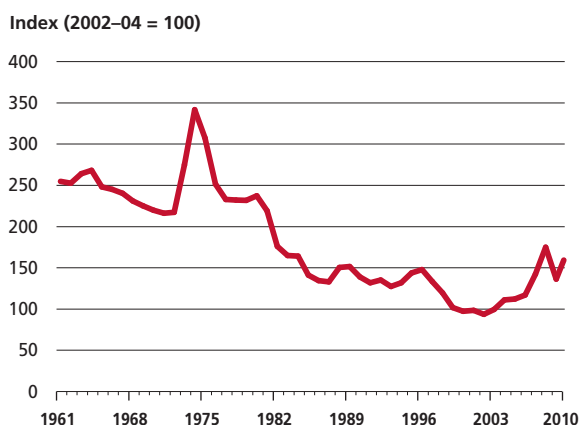
that target smallholder farmers and help them to access markets, such as Purchase for Progress (P4P).

- **Safety nets are crucial for alleviating food insecurity in the short term, as well as for providing a foundation for long-term development.** In order to be effective at reducing the negative consequences of price volatility, targeted safety-net mechanisms must be designed in advance and in consultation with the most vulnerable people.
- **A food-security strategy that relies on a combination of increased productivity in agriculture, greater policy predictability and general openness to trade will be more effective than other strategies.** Restrictive trade policies can protect domestic prices from world market volatility, but these policies can also result in increased domestic price

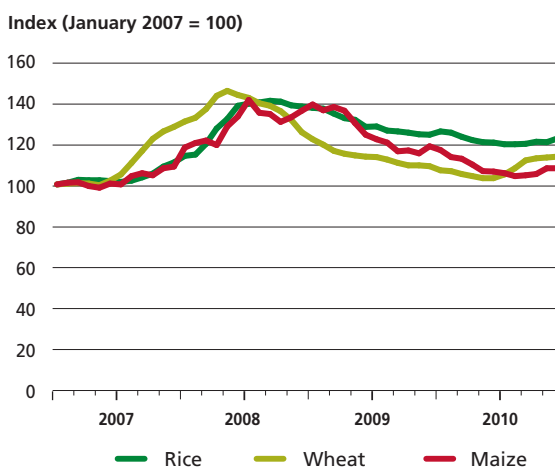
volatility as a result of domestic supply shocks, especially if government policies are unpredictable and erratic. Government policies that are more predictable and that promote participation by the private sector in trade will generally decrease price volatility.

- **Investment in agriculture remains critical to sustainable long-term food security.** For example, cost-effective irrigation and improved practices and seeds developed through agricultural research can reduce the production risks facing farmers, especially smallholders, and reduce price volatility. Private investment will form the bulk of the needed investment, but public investment has a catalytic role to play in supplying public goods that the private sector will not provide. These investments should consider the rights of existing users of land and related natural resources.

Apart from a peak in the early 1970s, the cost of food declined from the early 1960s until 2002, since when it has started an upward trend



Domestic prices for rice, wheat and maize increased substantially during the crisis



Source: FAO.

Source of raw data: FAO Global Information and Early Warning System.



2011

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The State of Food Insecurity in the World 2011 highlights the differential impacts that the world food crisis of 2006-08 had on different countries, with the poorest being most affected. While some large countries were able to deal with the worst of the crisis, people in many small import-dependent countries experienced large price increases that, even when only temporary, can have permanent effects on their future earnings capacity and ability to escape poverty.

This year's report focuses on the costs of food price volatility, as well as the dangers and opportunities presented by high food prices. Climate change and an increased frequency of weather shocks, increased linkages between energy and agricultural markets due to growing demand for biofuels, and increased financialization of food and agricultural commodities all suggest that price volatility is here to stay. The report describes the effects of price volatility on food security and presents policy options to reduce volatility in a cost-effective manner and to manage it when it cannot be avoided. It will be important to provide improved market information, create gender-sensitive safety nets that are designed in advance and can be implemented quickly in times of crisis, and invest in agriculture for the long-term to make it more productive and resilient to shocks.

FURTHER INFORMATION

The State of Food Insecurity in the World raises awareness about global hunger issues, discusses underlying causes of hunger and malnutrition and monitors progress towards hunger reduction targets established at the 1996 World Food Summit and the Millennium Summit. The publication is targeted at a wide audience, including policy-makers, international organizations, academic institutions and the general public with an interest in linkages between food security and human and economic development.

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