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The State of Food Insecurity in the World 2011

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

How many people in the world are suffering from hunger?

- FAO's best estimate of the number of hungry people for 2010 remains at 925 million. For the 2006-2008 period FAO calculates the number of hungry at 850 million. The methodology FAO uses for calculating the prevalence of hunger is currently under revision, so no estimates have been produced for 2011.

Why didn't FAO estimate undernourishment in 2011?

- FAO is improving its methodology for measuring hunger so that it can take account of the latest information, including shocks to incomes and prices, such as the food and financial crises. In response to requests from FAO's member countries, FAO has participated in or hosted several international symposia in order to consult stakeholders and experts from around the world. While these consultations necessarily take time, FAO considers them to be essential for strengthening the accuracy and timeliness of its methodology.

What is price volatility?

- Price volatility refers to fluctuations in prices. These fluctuations can be predictable, for example the typical fall in prices immediately after the main harvest, or unpredictable. Unpredictable changes are usually more difficult for farmers and poor consumers to anticipate, prepare for and adjust to.

What are the dangers of price volatility?

- Excessive fluctuations in prices mean that farmers are less likely to invest in their farms, because they are unsure of their returns/profits.
- Excessive fluctuations in prices can lead to what is known as "poverty traps." For example, if someone – either a farmer or a consumer – suffers a sudden loss of income due to large price changes, they may have to sell some of their assets (e.g. livestock or land) to meet immediate needs, which reduces their opportunities to generate income over the longer term. Thus, a short term shock leads to a reduction in income even after the shock has passed. Or a family may be forced to reduce their expenditures on nutritious food. If a child does not have access to adequate quantities of nutritious food in the first 1000 days of its life, the lack of nutrients during this period can reduce her or his intellectual capacities and ability to earn income in adulthood. Again, a short-term shock can lead to long-term effects.

Which countries were hurt most by the world food price crisis in 2006-08, and why?

- Many factors determined the extent to which any particular country was affected by the crisis, including their status as an importer or exporter of food (or energy) and the extent to which their policies affected price transmission from world markets. Many African countries are low-income food-deficit countries, and these countries tended to suffer an increase in undernourishment during the crisis. Asian countries were, in general, less affected – although there were exceptions. Some countries were able to insulate themselves from the food price crisis, but this insulation increased prices and volatility on international markets, thus affecting other countries.

Which people were harmed the most by the food price crisis?

- Poor urban food consumers, who often spend 35 percent of their income on just the staple foods, and more than 70 percent of their income on all foods combined, were obviously hurt. For example, a staple food price increase of 26 percent, which was typical in developing countries in 2008, would mean a decline in real income of 9 percent in a single year. For a poor person, such a shock is difficult to handle.
- Even in rural areas, many people consume more food than they produce (i.e. they are net buyers of food), so that they too were hurt by higher food prices. Female-headed households were affected disproportionately by the crisis, because they typically own less land than male-headed households and are thus less likely to benefit from higher prices.
- Countries with well-functioning safety nets were able to limit the impact on their poor people, especially if the safety nets were designed in advance of the crisis and in consultation with the beneficiaries.

Did farmers benefit during the world food crisis?

- In most cases, farm prices did increase during the world food crisis, often by more in percentage terms than the increase in retail prices. Higher prices benefit farmers provided that they have extra crop to sell above and beyond their family's needs. It is true that the costs of production also increased (e.g. fertilizer, fuel for tractors), but the costs of higher input prices were typically less than the benefits obtained from higher food prices. This explains why there was a large supply response in 2008, even in developing countries. Smallholders, unfortunately, often did not share in these benefits, because they have less access to land and water and thus have little or no marketed surplus to sell.
- Traders also benefited in some cases, but in other cases the sudden price changes that on occasion caused them to lose money. At times, they may have promised to deliver food at a given price, but then had to pay a much higher price to procure that food because prices had increased between the time the deal was made and the time the food was actually delivered. Traders also had to confront rising fuel costs that made it more expensive to move food from surplus to deficit areas.

Why are we so concerned about high food prices after years of concern about low food prices?

- New evidence from a large number of recent household surveys have shown that the poorest 20 percent of the population consume more food than they produce. Even in rural areas, most of the poor are net food buyers as they don't own enough land or have access to enough water to grow a large surplus for sale.
- High prices will be beneficial for food security in the long term if governments and donors invest more in agriculture and the basic infrastructure that supports agriculture, and create an enabling policy and regulatory environment

Are food prices likely to remain high and volatile?

- 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.

What can be done to limit price volatility and its effects?

- Better information and analysis of global and local markets and improved transparency could reduce the incidence and magnitude of panic-driven price surges. Therefore, in response to a request from the G-20, FAO and other international agencies are promoting AMIS – the Agricultural Market Information System – which will be housed at FAO. AMIS will involve the world's major food-producing, exporting and importing countries. Its secretariat will be composed of international organizations with the capacity to collect, analyse and disseminate information on a regular basis regarding the food situation and outlook as well as to develop food policies.
- Well-targeted safety nets can provide much needed relief to poor households during a crisis, helping families to build a better foundation for escaping food insecurity in the long term. For example, safety nets can help maintain the consumption of nutritious foods by young infants, which is essential if they are to fully realize their intellectual potential.
- Government policies that are more predictable and that promote participation by the private sector in trade will generally decrease price volatility. Many governments change policies suddenly and in an ad hoc fashion, making it difficult for private traders to perform their function of moving food to where it is needed. Indeed, much price volatility is caused not by events on international markets, but because of sudden changes in domestic policies that make it difficult for private traders to import, export or transport food as needed.
- Increased investment in agriculture will make food systems more productive and resilient to shocks, thereby reducing production volatility and making prices more stable. For example, increased investment in cost-effective irrigation will increase productivity and can also help to mitigate the impact of climate change.