



Rising food prices

Implications for children and recommendations

When food prices go up, poor families suffer. Elizabeth is a small food stallholder in the Kroo Bay slum in Freetown, Sierra Leone.

"Prices are getting higher. Throughout this year prices have been increasing. Before, they used to stay much more constant. Now a 50kg of rice is 120,000 leones (£21). Last year in the rainy season it cost 80,000 leones (£14). People are buying produce from me but not as frequently as before. I've had to raise my prices. The price increases make business difficult and I worry about being able to feed my children."

Elizabeth is one of the 105 million people the World Bank estimates will be pushed further into poverty as a result of food price rises.¹ This paper outlines Save the Children UK's analysis of how these price rises will affect children, provides a basic analysis of the causes of recent rises, and proposes some immediate and longer-term solutions.

Rising prices, falling affordability

The price of staple foods has been rising since 2000, and rose sharply in the 12 months before this paper was published in May 2008. Over the last three years, global commodity prices rose 83%, according to the World Bank.² These represent rises of a scale and suddenness without recent precedent, and pose a major challenge to poor families. In developing countries, food can account for up to 80% of consumer spending,³ so price rises bite hard.

Save the Children UK's own experience bears this out. Where we work in the Amhara region of northern Ethiopia, most poor households produce much of their own food on their small farms, but not enough to last the whole year. They need to buy food to get through the 'hungry season' before the next harvest comes in. Between mid 2007 and April 2008, wheat prices in the markets have risen by 70%, and by around 250% since 2001. In 2001, it took 60% of a family's income to buy the 25% of their annual food needs not covered by their harvest. In April 2008, the same proportion of their income would cover only 7% of their food needs from the market.⁴

Suddenly, and catastrophically, poor Ethiopian families are facing serious challenges in meeting their food requirements from their income.

These experiences are likely to be replicated around the world. In 2007, Save the Children published research that estimated how much it would cost a typical family in a number of poor countries to buy a diet that would meet their minimum nutritional requirements.⁵ This means a diet that gives them enough calories, but also provides 15 different key nutrients necessary for good health and cognitive and physical development. Our analysis showed that, even before the recent price rises, poor people



were generally not able to afford all the different types of food needed for a nutritious diet. In Kurigram district in Bangladesh, for instance, a staggering 80% of the households studied could not afford such a balanced diet.

What price rises mean for children

Under-nutrition is already the underlying cause of 3.5 million deaths per year among children under five years of age. Progress towards Millennium Development Goals 1 and 4 on hunger and child mortality are already seriously off-track in many parts of the world.

The recent food price rises mean that families will have to tighten their belts even further. People will either eat less, or eat cheaper food that fills their stomachs and eases hunger pangs. In general, more nutritious foods like animal products are more expensive, so a switch to cheaper foods usually means poor people fail to get the necessary vitamins and minerals to stay healthy and well-nourished. For those whose diet already leaves them malnourished, this can be catastrophic. Reducing total food intake or reducing food variety can have a calamitous effect on children's health – particularly on the under-twos, who are most vulnerable. If this age group is malnourished, they become much more susceptible to disease and death. They can grow up irreversibly stunted, which affects their health, education, mental development and future ability to earn income.

Price rises are not just dangerous to the nutrition and health of children. When income is squeezed due to shocks like price rises, families have to find ways to cope. They can cut back on some spending, or try to find extra income somehow. Almost all of these coping strategies have serious negative consequences for children, particularly in poor families on limited income.

Cutting expenditure when it is already inadequate means making hard choices about what to sacrifice. For instance, in order to afford enough food, families may decide not to seek healthcare where they have to pay for it – with further potentially tragic consequences when illness strikes. Or they might take their children out of school to save on school fees. Needless to say, this has consequences for their children's education but, even worse, those children can also be put to work to bring in extra money.

Getting additional income is rarely easy, and the options open may be dangerous, exploitative or simply unsustainable. Families may sell some of their productive assets, like cattle, which they need to earn a living, or they may borrow money and go into debt. This sort of response allows them to buy food for a short time, but at the cost of making it harder to bring in an income in future. As a result, food price rises, even if they are relatively short term, can have long-lasting and far-reaching implications for children.

Groups of people will be affected differently. Those who buy most or all of the food they eat will particularly feel the effects: the urban poor, those rural families who own little or no land, and those pastoralist families who tend livestock and buy grain. These are already typically the poorest and most vulnerable groups with little political voice or influence. For them, price rises are yet another threat to fragile livelihoods. Some better-off farmers who have enough crops to sell will benefit from price rises. However, these benefits are likely to be far outweighed within most countries by the negative impact on those purchasing food.



Origins of the crisis

Food price rises have been caused by a 'perfect storm' of increased demand and decreased supply and food stocks. Demand has been driven by economic growth in major developing countries, consumption of foodstuffs for industrial purposes (including biofuels), and population growth. Supply has been affected by poor recent harvests and a general decline in stocks of food. Market forces, such as speculative investment, and fluctuations in oil prices and currency exchange rates have also contributed to price volatility.

What is striking and distinctive about the causes of this crisis, unlike a drought or a flood, for example, is that many of them are not going to go away quickly or easily. Some root causes are even positive developments.

The world is using more food

As populations become wealthier, they tend to eat more, and particularly they tend to eat more high energy, animal-based foods, such as meat and (especially) milk. These types of food often require grain to produce. This growth in consumption, driven by increased wealth, is a long-term trend and will continue to underpin food price rises in future. Clearly, increased income and consumption in developing countries with high levels of poverty and malnutrition is something to be welcomed. Ways must be found to ensure that these reductions in poverty can be sustained without harming those left behind.

Rising populations is also a factor. In 1990 the global population was 5.3bn and is expected to be 7.3bn by 2015.⁶ More mouths mean more demand for food. However, the impact of population growth should not be overstated. Agricultural production has historically increased faster than population has grown, and the UN predicts that this trend will continue at least until 2030.⁷

The trend for using biofuels has meant that more of some crops previously used for food are now used to produce fuel. How much of food price rises is attributable to biofuels is hard to ascertain. However, one think tank has estimated that if biofuel production expands drastically, food prices could rise by 72%.⁸

Food supply and stocks are down

World food production has had two bad years. Global cereal production dropped by 1% and 2% respectively in 2005 and 2006.⁹ In the main exporting countries, more grain is expected to be used than produced¹⁰ – implying that production is trailing demand.

For this and other reasons, global grain stockpiles are declining.¹¹ Declining stocks pushes up prices and increases speculation.

Climate change is likely to increase the severity of swings in food supply. There is evidence that severe weather events are increasing,¹² and major changes in rainfall, such as that which occurred in Australia last year, have an immediate impact on crops. Subsistence farmers, and those who live in agriculturally marginal areas, are most at risk from the ravages of extreme weather caused by climate change.

In the medium term, higher prices for food should lead to increased production and increased investment in agriculture as farmers and agribusiness seek to capitalise on the opportunities high



prices provide. Already, reports indicate the possibility of record grain harvests in 2008.¹³ While this should partially mitigate the problem, prices are not expected to fall back to levels seen before the current crisis. It is also vital to recognise that efforts to increase agricultural production can place stress on land and water availability and have damaging environmental consequences.

Market forces have made prices more volatile

Financial markets have become increasingly interested in food commodities, and such interest tends to add to price volatility. In 2006, the volume of traded global agricultural financial products, like options and futures, increased by almost 30%.¹⁴ However, signs are that poor country governments consider financial market products to be a contributor to food insecurity: Ethiopia's new commodities market, opened in April 2008, has banned the trading of food futures.¹⁵

Finally, producing food has become more expensive, putting further pressure on prices. The price of agricultural 'inputs' (items such as fertiliser and diesel necessary for producing crops) has grown rapidly.¹⁶ Record fuel prices mean that the transport costs for getting food to markets, especially in landlocked countries such as Uganda, have soared, putting further pressure on prices.

Conclusion

Food price rises are not the result of any single factor but the result of the confluence of a diverse set of them, including changing consumption patterns and broader economic and environmental changes. Some of these factors, like low production caused by poor harvests, will ease in the short term.

However, underlying trends, such as income growth in developing countries and a push towards energy security which creates incentives for biofuel production, are less likely to be immediately reversed. Consequently, although the immediate pressure may ease, high food prices are likely to remain as a creeping crisis, compounded by the increased frequency and severity of extreme weather events, likely to be exacerbated by climate change. Food price rises and their devastating effects on the poor will be with us for a long time and need urgent but considered attention from decision-makers.

Not all countries or areas within countries will be affected the same. Some isolated areas are less exposed to market forces, while governments also have policy instruments that can be used – for better or worse – to protect their populations from changing food prices.

It is vital that local conditions are understood in each case.

Recommendations

Steps must be taken to mitigate the immediate impact of food price spikes on the poor. However, since the issue of high food prices is unlikely to go away over the medium term, more needs to be done to invest in strategies that will enable families to afford a healthy diet and build sustainable livelihoods to support themselves.

Some commitments have already been made – the World Bank has promised to focus on agriculture and at the time of writing [in May 2008] donors were helping to fill the UN World Food Programme's immediate funding gap. But more must be done (see over).



Immediate term steps that should be taken include:

- Governments should place a moratorium on new official targets and quotas for the production of biofuels and review those that already exist.
- Donors should move to fill the funding gaps of the World Food Programme and aid agencies, whose budgets are under pressure from the increased cost of food.
- The World Food Programme has shown admirable leadership in raising awareness on food price rises. However, the new UN Task Force on the Global Food Crisis must move swiftly to ensure that other UN agencies fulfil their responsibilities to ensure that the multi-sectoral problems arising from food price rises are addressed.
- Recognising that the most nutritious foods may be hardest for families to afford, in providing food aid or other assistance, governments and international actors must ensure that populations' full nutritional needs are met.
- Developing country governments should put in place or expand social protection measures that will safeguard their most vulnerable populations. These might include reducing tariffs or VAT on food or providing cash or vouchers to at-risk groups. As resources for such programmes are likely to be inadequate, focus should be placed on reaching those most at risk and at reaching children during key periods of their development, such as preventing stunting by ensuring adequate nutrition before two years of age. Extreme caution should be exercised, however, before implementing export bans or tariffs, which may worsen the food situation.
- Financial think tanks should examine the increasingly complex commodities market to assess whether new products and forms of trading are contributing to artificial rises in commodity prices and, if so, governments should act to regulate.
- Donors should financially support low-income countries not self-sufficient in food to enable them to, among other things, import food, build up stocks, subsidise food or reduce tariffs, and increase social protection programmes. Doing so should not jeopardise spending on other basic services.
- Whatever mitigation measures are taken now, price rises will cause increasing hunger-related emergencies. Donors need to fund aid agencies and national governments to better understand who will be affected by price rises, when and how. Aid must then be disbursed rapidly at the first warning signs of an impending crisis, and ensure all vulnerable populations – urban, rural, pastoralist – are supported in an appropriate way.

Longer-term steps that should be taken include:

- Developing country governments, with support from donors, need to significantly step up investment in agriculture in areas such as market infrastructure, extension, credit and research.



Policies must be implemented that promote agricultural productivity, increase yields and meet increased demand.

- The UN, donors and national governments must stop responding to food crises (not just price rises) as if they are occasional emergencies. They are sporadic symptoms of a systemic failure to deal with underlying food poverty. Steps must be taken to invest in long-term social protection mechanisms like child benefits, pensions and healthcare systems that protect those who are most vulnerable, and help them to build up livelihoods that protect them from food price and other economic shocks.

¹ Ivanic M and Martin W, *Implications of higher food prices for poverty in low-income countries*, World Bank, April 2008, p.20.

² World Bank, *Rising food prices: policy options and World Bank response*, p.1

http://siteresources.worldbank.org/NEWS/Resources/risingfoodprices_backgroundnote_apr08.pdf . Three years to February 2008.

³ Food and Agriculture Organization of the United Nations, <http://www.fao.org/newsroom/en/news/2008/1000826/index.html>

⁴ Save the Children UK Ethiopia programme analysis (unpublished).

⁵ Chastre C *et al*, *The minimum cost of a healthy diet*, Save the Children, 2007. The healthy diet is an ideal diet which would meet the nutritional needs of families from foods available in local markets: it is not necessarily a typical diet.

⁶ Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2006 Revision and World Urbanization Prospects: The 2005 Revision*, <http://esa.un.org/unpp>. Accessed 23 April 2008.

⁷ <http://www.fao.org/english/newsroom/news/2002/7828-en.html>. Accessed 23 April 2008.

⁸ Von Braun J, *The World Food Situation*, International Food Policy Research Institute, December 2007, p. 9.

⁹ These drops are in contrast to an average rise of 0.6% over the last ten years. Source: FAO, *Crop Prospects and Food Situation* No. 2, April 2008, p.12, p. 38.

¹⁰ Food and Agriculture Organization of the United Nations, *Food Outlook*, November 2007, p.68.

¹¹ In 2000, global stockpiles of cereals stood at 681m tonnes. At the end of 2007, they were estimated at 428m tonnes. Source: Food and Agriculture Organization of the United Nations, *Food Outlook* no 5, December 2002, p. 45 and November 2007 *op cit*, p. 61.

¹² In 2006 there were 527 reported natural disasters, compared with an annual average of 393 for the years 2000-2004. Hydro-meteorological disasters have increased from around 200 annually in the 1980s and 90s to around 360 annually today. Source: P Hoyois *et al*, *Annual Disaster Statistical Review: Numbers and Trends*, Centre for Research on the Epidemiology of Disasters, Catholic University of Louvain, Belgium, 2007, quoted in D Maxwell *et al*, *Rethinking Food Security in Humanitarian Response*, Tufts University, April 2008, pp 10-11.

¹³ For example, Food and Agriculture Organization of the United Nations, *Crop Prospects and Food Situation*, No.2, April 2008.

¹⁴ Von Braun J, *The World Food Situation: new driving forces and required actions*, International Food Policy Research Institute 2007 p.5.

¹⁵ Similar moves were taken by one of India's commodity markets in 2007. Jopson B, 'Ethiopian exchange bans trade in futures', *Financial Times*, 20 April 2008.

¹⁶ The UK price for nitrogen fertiliser, for instance, doubled between 2004 and 2008. Source: HGCI, *International Fertiliser Prices* <http://www.openi.co.uk/h080219.htm>. Accessed 23 April 2008. Fertiliser prices are strongly correlated with that of oil, which is used in its manufacture.

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