

# Higher and volatile food prices and poor rural people



Enabling poor rural people to overcome poverty

## Food price hikes and food security

Food price trends have a major impact on food security, at both household and country levels. Many of the world's poorest people spend more than half their income on food. Price hikes for cereals and other staples can force them to cut back on the quantity or quality of their food. This may result in food insecurity and malnutrition, with tragic implications in both the short and long term. Undernourishment increases disease and mortality, lowers productivity and can have severe lifelong effects, particularly for children. Price spikes can also limit the ability of poor households to meet important non-food expenses, such as education and health care. When they occur globally, price hikes can affect low-income, food importing countries, putting pressure on their limited financial resources. Higher food prices have a particularly negative impact on food security when prices spike suddenly or reach extremely high levels.

On the other hand, higher prices are an important signal for producers. And this group includes half the world's undernourished people, who are small farmers, livestock producers and artisanal fishers. For these people, higher prices present both an opportunity and a threat. They can be an incentive to produce more for the market, making more food available while also improving access to it, as poor farmers' incomes increase. But higher prices are also a threat, because many poor farmers are net food buyers – meaning they spend more on food than they make by selling produce, and because many of them face obstacles that prevent them from producing more or getting more of their produce to market.

Price hikes can have mixed effects in terms of food security. According to the World Bank, the 2010-2011 food price spike has pushed a net estimated 44 million people into poverty. For some 24 million food producers, it has been a ticket out of poverty – albeit possibly a short-term one. But their numbers were swamped by the 68 million that have fallen below the extreme poverty line.

## Why prices have been rising in recent years

Prices for cereals and other major food commodities have experienced two global spikes recently – one in 2007-2008, the other in 2010-2011. And they have generally remained higher than during the period between the 1980s and the early years of this century. Prices have also experienced hikes or remained at higher levels in many developing countries. The reasons for these different though inter-related phenomena are not identical. However, a growing imbalance

between demand for and supply of food – notably cereals and livestock products – underlies higher prices in both domestic and global markets. While demand for cereals (whether for human consumption, livestock production or feedstock) has been rising steadily – both globally and in most developing and emerging countries – in recent years, supply has not kept up. In developing countries, the key factors behind inadequate supply are low and stagnating productivity in agriculture, a deteriorating natural resource base, and weak rural and agricultural infrastructure and markets. At the global level, other factors have contributed to the recent price spikes, including supply shocks in some major exporters, trade restrictions, increasing trade and speculation in financial instruments (notably derivatives) based on food commodities, and rising oil prices.

In domestic markets, at times prices have risen as a result of the gradual increase in the supply/demand imbalance, and at other times as a result of price transmission from global markets. Rising oil prices have also put upward pressure on domestic prices in many countries, affecting both agrochemical and transportation costs.

## The price volatility rollercoaster

Price spikes like those we have witnessed in recent years are not just part of a trend of higher prices. They are also part of a different phenomenon – price volatility – a combination of abnormal unpredictability of prices and of unusually large variations, particularly upward. Although experts differ in their assessment of the magnitude of recent global price volatility, they agree that global prices have become more volatile and that volatility will persist in the coming years.

Some of the reasons for growing global price volatility are the same as those causing higher prices both globally and domestically – they essentially have to do with supply/demand imbalances. While demand is growing more or less steadily, inadequate supply and the limited volume of food traded on global markets means that prices in these markets are very sensitive to supply shocks. Such shocks can be caused by local environmental and climatic factors, the sudden imposition of trade restrictions, financial speculation in food commodities, sudden increases in oil prices, or currency exchange fluctuations. Like price increases, price volatility can be transmitted from global to domestic markets and vice versa.

While higher food prices can be an opportunity for small farmers, price volatility hurts both consumers and producers. The extreme range of price variation – especially upward – hurts net food consumers. Moreover, the unpredictability of prices inhibits planning, makes

investment risky and discourages farmers from producing more for the market. This represents a lost opportunity for farmers to raise their incomes, and for countries to develop the potential of smallholder agriculture to contribute to global food security.

### **Mitigating price volatility and IFAD's response**

It is widely recognized that addressing the root causes of higher food prices and price volatility requires redressing the supply/demand imbalance, both globally and in developing countries – particularly where food insecurity is prevalent. Smallholder agriculture has a key role to play, because it provides up to 80 per cent of food consumed in Asia and sub-Saharan Africa, and because such a large share of the food insecure are themselves farmers. To redress this imbalance, smallholder farmers need to be able to benefit from higher prices and to be less exposed to the risks resulting from supply shocks and price volatility.

IFAD's work contributes to mitigating food price volatility by supporting smallholder farmers to produce more, in a more resilient and sustainable manner, and with better links to markets. We also help put in place the necessary institutional and policy environment for this transformation, and for the scaling up of successes. In addition, IFAD fosters household-level food security and nutrition strategies to help counter the effects of price hikes. In particular, we focus on:

- **Boosting household food security.** We fund projects to raise and stabilize the incomes of poor rural people so they can improve their food security.

We also strengthen household-level nutrition by helping to establish home vegetable gardens, improving access to safe water and supporting women's empowerment and well-being.

- **Increasing sustainable and resilient production.**

We do this by building on best local practices while exploiting the latest research and technology and nurturing innovation. We focus not only on developing and making available improved technologies, but also on building the capabilities of poor rural people as producers and managers of increasingly scarce natural resources.

- **Strengthening the market integration of small farmers.**

IFAD-supported projects increasingly promote the integration of smallholder farmers in agricultural value chains – from input and service provision to production, processing and marketing. We support improved post-production handling, processing and storage facilities and better interaction among farmers, service providers, traders and agribusiness firms.

- **Improving risk management.** We strengthen the capacity of smallholder farmers to withstand risks related to supply or price shocks through more-resilient production practices, better linkages among value chain actors and improved rural infrastructure. We also support improved risk management through organization of small producers and through innovative financial mechanisms to reduce investment risks, such as weather index insurance and supply chain financing.

IFAD is an international financial institution and a specialized United Nations agency dedicated to eradicating poverty and hunger in rural areas of developing countries.



International Fund for  
Agricultural Development  
Via Paolo di Dono, 44  
00142 Rome, Italy  
Tel: +39 06 54591  
Fax: +39 06 5043463  
E-mail: [ifad@ifad.org](mailto:ifad@ifad.org)  
[www.ifad.org](http://www.ifad.org)  
[www.ruralpovertyportal.org](http://www.ruralpovertyportal.org)