



Financial Crisis and High Food Prices MEDIA BACKGROUNDER

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Key Points

- **As the global financial downturn continues, hunger and malnutrition will increase as incomes fall and unemployment rises. The poorest and most vulnerable will feel the effects most strongly.**
- **With the number of hungry people expected to top one billion this year, the need to address urgent hunger needs is greater than ever.**
- **In 47 of the 55 countries monitored by WFP, staple commodity prices are still more than 20% higher than the average for the past five years.**
- **In 2009, WFP needs US\$6.4 billion to meet the urgent hunger needs of 105 million people. This is a fraction of the trillions of dollars spent to rescue financial institutions and stimulate economies.**
- **WFP has designed an Economic Shock and Hunger Index (ESHI), which uses economic variables and food security indicators to identify which countries will be hit hardest by the financial crisis.**

Impact of global crises on developing countries

Hunger: The number of hungry people on the planet this year is predicted to reach a historic high of 1.02 billion. The global economic slowdown and stubbornly high food prices in many countries are being named as the cause for the new numbers of hungry people. (*FAO*)

GDP Growth: Global GDP is expected to decline by 2.9 percent according to the World Bank and by 2.6 according to UN/DESA. At least 60 (of 107) developing countries are expected to suffer declining per capita incomes. This impacts poverty reduction efforts as only seven countries are expected to register growth of three percent or higher (down from 69 countries in 2007 and 51 in 2008). (*UN/DESA*)

Remittances: Remittances, which represent a major source of foreign exchange for developing countries (\$63 billion a year for Latin America, nearly \$20 billion for sub-Saharan Africa in 2008), and is an important source of income for households, are expected to contract globally by between five and eight percent in 2009 after years of double-digit growth. (*World Bank, March 2009*)

The situation is particularly problematic for those countries for which remittances are a large percentage of GDP. This includes small economies such as Tajikistan (45 percent), Moldova (38 percent), Lesotho (29 percent), Honduras (24 percent), Jordan (23 percent) and Haiti (20 percent) (*World Bank, 2008*)

Exports and trade: The WTO forecasts a decline of nine percent in international trade in 2009 (the IMF predicts five percent, the World Bank predicts a ten percent drop, and UN/DESA 11 percent). This decline is affecting all regions of the world, including Africa where demand for primary commodity exports, such as timber, cotton and copper, is decreasing. These commodities are often big foreign exchange earners as well as an important source of employment.

Investment: The IMF estimates that foreign investments to developing countries are expected to decline by 32 percent from 2008 levels. Total debt and equity flows are expected to decline in 2009 by 82% from 2007 levels (from \$929 billion in 2007 to \$165 billion in 2009). (Institute for International Finance) Total private capital flows are expected to decline in 2009 by 70% from 2007 levels (from \$1.2 trillion in 2007 to \$363 billion in 2009). (*World Bank*)

Aid budgets are under pressure in developed countries. At the G20 meeting in April, leaders reaffirmed their commitments including to Africa. As yet it is unclear what the effect lower GDPs will have on overseas development assistance (ODA) pledges.

Global food aid supplies are at a 20-year low. Only 6.3 million tons of food aid was delivered globally in 2008 compared to 13.2 million tons in 1990.

Country-specific examples

Asia

Pakistan: Even before the current crisis, high inflation, devalued currency and limited credit—on top of steep rises in food and fuel prices—left the country vulnerable, with the number of food-insecure rising from 35 to 45 million last year alone.

Cambodia: Around 50,000 jobs were lost in the garment industry; young women, who benefited most from jobs in the sector, are now more vulnerable.

Philippines: Reduction in remittances—ten percent of GDP is derived from remittances from roughly eight million workers abroad.

Armenia, Tajikistan and Kyrgyz Republic: The slowdown in the Russian economy is reducing remittances and sending workers back home.

Africa

Zambia: Copper prices in Zambia are still much lower than 2008 rates, and the copper export economy has left 8,000 people without jobs (more than 25% of the industry workforce).

Democratic Republic of Congo: An additional 350,000 people could find themselves unemployed in Katanga province as mineral companies slash production.

Kenya: Remittances have declined by 15 percent in the first four months of 2009, compared to the same trimester in 2008.

Latin America

Nicaragua: Remittances, which had been found to reduce poverty by four percent on average and five percent in urban areas, are now drastically reduced as a result of the financial crisis.

Caribbean economies: Face serious declines in tourism and remittances.

(Sources World Bank 2009. Except Kenya remittances: Central Bank of Kenya, 2009)

Trends in prices of staple foods

During the second quarter of 2009, the cost of staple commodities in 47 of the 55 countries monitored by WFP are still more than 20% higher than the average for the past five years. (WFP-VAM)

Commodity prices still remain high relative to 2007 prices, exacerbated by fluctuations in market stability. Loss of income has created an additional burden on families already trying to cope with higher food prices and increased uncertainty.

Food prices remain high in developing countries. Despite improved global cereal supplies food emergencies continue in 32 countries. (FAO, Crop Prospects and Food Situation report, April 2009)

Global cereal prices are 74 percent higher than they were in 2005, on average, and ten percent above 2007 levels (IMF, June 2009). Cereal prices in developing countries remain very high, in some cases at record levels (FAO, Crop Prospects and Food Situation, April 2009).

A recent study of 58 developing countries shows that in 78 percent of them food prices in April 2009 were higher than April 2008. In 17 percent of cases, prices are the highest on record (FAO, Crop Prospects and Food Situation, April 2009).

Prices on local markets have remained stubbornly high in parts of the world where people are most vulnerable. This phenomenon is sometimes referred to as the 'ratchet effect' – prices adjust upwards more quickly than downwards.

Afghanistan: Price of wheat in June 2009 was 91 percent higher than average (taken over five years), and the price of wheat flour was 53 percent higher in April 2009 than the same time in 2007. In 2009, WFP plans to assist 8.8 million vulnerable people through various activities including food-for-work, general food distribution, school feeding as well as nutrition and health programmes.

Mozambique: The price of maize in June 2009 was 146 percent higher and the price of imported rice 123 percent higher than the previous five-year average.

Sri Lanka: In June 2009, the price of rice was 100 percent higher than average (taken over five years), and the price of wheat 104 percent higher than average (taken over five years). The conflict in the north has also seriously impacted the food security and socio-economic conditions of the civilian population.

Sudan: Prices of sorghum and millet are 106 percent and 63 percent higher, respectively, than the average over the past five years. In 2009, WFP aims to provide food assistance to 5.9 million people in Sudan, including 3.8 million conflict-affected people in Darfur.

Uganda: In June 2009, the prices of cassava and bananas were up 189 percent and 130 percent, respectively, over the five year average for June. Prices for both commodities continue to rise.

Zambia: The price of maize in June 2009 increased by 11 percent compared to the previous quarter and is 35-37 percent higher than 2008 for the same period—and more than 90 percent higher than the five-year average.

Figures from WFP June 2009 Price Bulletin

ESHI – An Innovation in Charting the Impact of the Financial Crisis on Hunger

WFP has devised an **Economic Shock and Hunger Index (ESHI)**, which uses economic variables and food security indicators to identify which countries will be hit hardest by the financial crisis.

Economic variables

1. Remittances
2. Export dependency
3. ODA dependence
4. Per capita GDP
5. Total foreign reserves
6. Current account balances
7. Foreign Direct Investment
8. Debt servicing
9. Currency valuations

Food insecurity variables

1. Food deficit status
2. Percentage of undernourished population
3. Percentage of underweight children

WFP analysed 126 countries and produced a 'watch list' of 40 countries which have emerged as vulnerable to the economic crisis in terms of increased hunger and food insecurity. Case studies were recently undertaken in **Armenia, Bangladesh, Ghana, Nicaragua and Zambia** with the intention of illustrating the situation in countries facing similar challenges.

Key findings

- The global financial crisis is significantly affecting household food security in these countries.
- The worst affected groups are unskilled workers in urban areas, families who rely on remittances, workers in export sectors and those working in mining and tourism.
- Coping mechanisms included reducing the quantity or quality of food consumed, withdrawing children from school, delaying or reducing health care, and looking for additional job opportunities such as casual work to bring in more income.
- Many communities are still reeling from the food and fuel crisis that peaked in 2008 and prices remain stubbornly high.