

Executive Brief: **Central America** **Prices, Markets and Food and Nutritional Security,** **May 2008**

The current global phenomena of rising grain prices is caused by a combination of temporary factors such as reduced harvests, as well as structural changes, including increased demand for maize for bio-fuel and maize for emerging markets like China, India and parts of Latin America. These factors could maintain high price levels for the next ten years. Between January 2006 and April 2008, the international price of yellow maize increased by 140%, the price of rice by 257%; the international price of soy rose by 126% and wheat by 117% (Graph 1).

Seasonal and climatic factors at the regional level, such as the late start of the rainy season, also affected grain availability. In September 2007, Hurricane Felix affected part of the North Atlantic region of Nicaragua, and in October, heavy rains fell on the western part of the country, affecting red bean production and complicating the drying process of this commodity. Between January 2007 and April 2008, the average price of white maize in the region increased by 20.5%, and red beans by 80.7%.

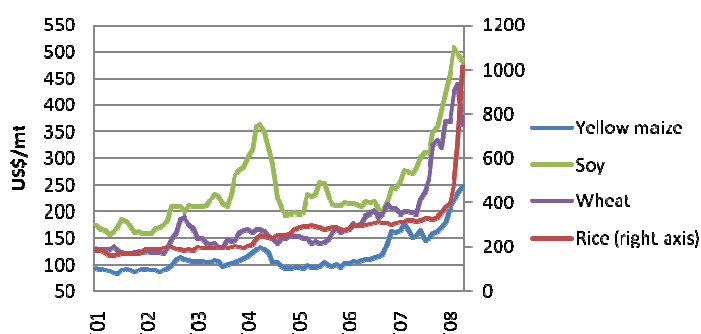
Higher food prices have not necessarily been a benefit to all producers. In the region, Guatemala is the major maize producer; Nicaragua and Guatemala are the main beans producers, and Nicaragua is the biggest producer of both rice and red beans. Nevertheless, many of the actual rural households in these countries have not benefited of the rising market prices for their commodities, as the majority of them are subsistence farmers who depend on the market for more than half of their food consumption and/or may have faced higher production costs due to the parallel increase in the cost of fertilizers and other agricultural inputs.

Markets in Central America are generally well integrated among themselves and with the international market. The prices of white maize are highly connected in the region. In the case of red beans, there is a direct relation between the prices in El Salvador, Honduras and Nicaragua. The dependence on grain imports in the region is relatively high: 72.3% for yellow maize, 69.9% for rice and 100% for wheat. At the regional level, red and black bean production normally covers needs, even if intra-regional trade exists; and dependency on white maize only represents 9.8% of consumption. In 2007, the total value of grain imports in the region increased by US\$160.2 million.

In Central America, grain represents a key component of the food basket, and consumer prices have shown significant increases. Red beans and cereals represent 50% of the food basket in Nicaragua, 75% of the rural food basket in El Salvador, 47% of the Honduran food basket and 53.8% of the Guatemalan basket.

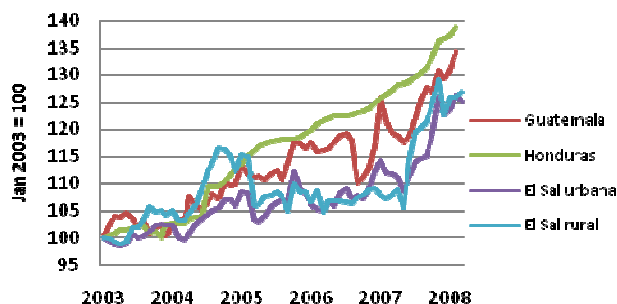
Between September 2006 and February 2008, over an 18 month period, the nominal cost of the **basic food basket in Guatemala rose by 22.1%; in Honduras by 12.8%; and in El Salvador, by 17.1% in urban areas and by 17.2% in rural areas** (Graph 2). In Nicaragua, the food price index increased by 33.5% during the same period. The purchasing power among poor households in Central America has broken down during this period, in the absence of substantive adjustments in minimum wages. For example, the minimum wage

Figure 1. International grain prices



Source: Based on data from IMF

Figure 2. Index of nominal cost of the basic food basket



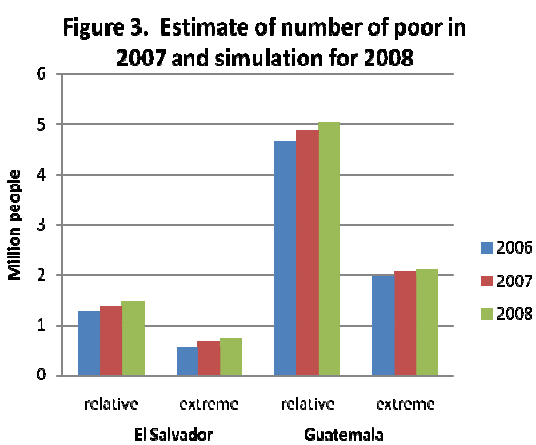
Source: Based on data from DIGESTYC (El Salvador) and INE (GU and HO)

in Nicaragua, in April 2008, covered less than 25% of the cost of the basic food basket for the urban and 11% of that of a rural household.

There are various groups in whose food consumption and nutritional intake is put at risk by the current price rise, especially the urban poor, subsistence farmers, day laborers and non-farming rural poor. Most of these families purchase over 80% of their food requirements, while food expenses represent a major proportion of overall household spending: over 55% among the poorest. This illustrates the high market dependence and extremely limited adjustment margin of poor households.

One of the main coping strategies among the poorest strata of affected population is changing diets and reducing food consumption. According to recent field analysis, it is estimated that among poorest families, **food consumption has reduced up to 26% in Nicaragua, from 9 to 13% in El Salvador, 8% in Honduras and 6% in Guatemala.** Even if households can partly compensate by buying less expensive food, the reduction in both the quality and quantity of their nutritional intake contributes to creating a major risk of under-nutrition. This risk is particularly severe among children under 5, pregnant women and mothers who are breastfeeding. According to recent analysis in El Salvador, 87% of poor households have reduced both the quality and quantity of their diet. While potential coping strategies include out-migration, selling of household assets and other goods, focus groups indicate that food reduction is the most common response.

Despite the significant advances in recent decades, under-nutrition is still a wide-ranging problem in Central America. According to FAO (2002-2004 estimates), of a total population of 32.8 million in the four poorest countries of the region (El Salvador, Guatemala, Honduras and Nicaragua), **approximately 6.8 million people suffer from undernourishment (insufficient caloric intake), that is to say 20.8% of the population. Over one third of the population, 11.3 million people, is highly vulnerable to food insecurity.** Rural areas present the highest poverty and vulnerability rates. For example, in Guatemala and Honduras, 60% of the rural population is poor, with 36-38% living in extreme poverty.



Source: Author's estimates.
Note: Simulation of effect of 6% increase in real cost of food basket in 2008.

The increase in food prices could dramatically affect this situation, deepening the situation of food insecurity and reversing many years of anti-poverty progress. Based on household surveys from **El Salvador and Guatemala, it is estimated that the number of people living in extreme poverty has increased by 6.5% (92,000 persons in El Salvador and 74,000 in Guatemala) during 2007, due to the rise in food costs reducing households' relative income (Graph 3). During the same period, some 104,000 "new poor" appeared in El Salvador and 229,000 in Guatemala.** Depending on market prices, new increases may be recorded in 2008. According to a recent World Bank study, in Nicaragua the number of poor people in the urban and rural areas may have risen by 10.5% and 4.2%, respectively, during 2005-2007, in view of the increased cost of the basic food basket.

To confront the challenges associated to the price rise, most governments in the region have announced initial measures regarding markets and production, such as (a) establishing tax free wheat flour import quotas, (b) implementing seed and fertilizer distribution programmes, and, in certain cases, (d) limiting exports of food commodities. Additional measures have been announced to mitigate the impact on poor households, including the establishment of subsidies, the expansion of programmes such as school feeding, conditional cash transfers, and food security and nutritional interventions. However, given the long term nature of the phenomenon, it will be critical for Governments to consider the overall sustainability of such measures in the medium to long term.

For more information, contact:

Carlo Scaramella, WFP Country Director El Salvador, carlo.scaramella@wfp.org

Herbert Lopez, WFP Country Office, herbert.lopez@wfp.org

Ludovic Subran, WFP programme Officer ludovic.subran@wfp.org