

Questions and answers on food security

Recent food price shocks threaten some 1 billion people with hunger. Meanwhile, there is growing evidence that climate change, along with rampant commodity speculation and lack of social protection is contributing to widespread food insecurity, resulting in hunger, poverty and even increased child labour. ILO On-line talked to Marva Corley-Coulibaly and Uma Rani Amara, senior economists at the ILO International Institute for Labour Studies about the growing concerns over food insecurity, and what urgent actions are needed to address the crisis.

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There are many factors contributing to today's food security crisis. For example, how is climate change having an impact?

Climate change is certainly having a negative influence on food prices and food security. Irregular or insufficient harvests due to weather-related conditions fuel price instability and the income and food security conditions of small scale farmers, pastoralists, and rural and urban net buyers. This leads to increased poverty that can quickly afflict the entire local community. This is why we need to invest more in sustainable agriculture and take into account the social dimension of adapting to climate change. This includes social safety nets for dealing with short term shocks, as well as longer term initiatives that can better help to improve livelihoods and manage risk. Unless such measures are introduced to limit the consequences of climate change, the situation is likely to further deteriorate.

What is the impact of rising food prices on farmers and producers?

Our study shows that the positive effects of rising food prices have been limited mainly because gains from higher prices have accrued disproportionately to large scale farmers, intermediaries and operators in financial markets rather than small producers. Also, because food prices are so volatile, any increase in agricultural income is seen by producers – especially small ones – as temporary, and does not lead to additional investment. Food prices were twice as volatile during 2006-2010 than during the preceding five years, and here adverse weather conditions related to climate change played a significant role as droughts and severe floods, particularly in developing countries, lowered yields of important staple foods and reduced the amount of arable land. As a result, producers lack the stable horizon they need to invest their gains, perpetuating food shortages. Evidence suggests that the gains from higher food prices mainly accrue to high-income groups while most low-income groups are net losers.

Is there a clear connection between higher food prices and the rise of poverty?

Higher food prices definitely threaten the achievement of poverty reduction goals and affect the development prospects of many countries. An increase in food prices reduces purchasing power since higher food prices reduce total household spending for other essentials, and can lead to increased poverty. For example, the World Bank estimates that the rise in food prices between June and December 2010 pushed an additional 44 million people below the US\$1.25 extreme working poverty line.

Also, higher food prices could lead to a reduction in real wages. To make wage adjustments necessary to neutralize losses from price increases, households in many developing countries make their children available for work, thus increasing child labour. Our analysis shows that a further 30 per cent increase in food prices may increase poverty rates by 3 percentage points in countries with chronic food shortages such as Bangladesh, Indonesia, Malawi, Nepal and Vietnam. Also, we estimate that a 30 per cent rise in food prices will require low-paid workers to find one additional week's employment every month to maintain their standard of living.

You say that food commodities have become a major financial product. In what way?

The amount of money invested in commodity index funds rose from US\$13 billion in 2003 to US\$192 billion in March 2008, which means that the volume of index fund speculation increased by 1,900 per cent during the same period. It is clear that there is a growing use of commodities as investments, largely due to the high short-term gains that are expected and because they are considered as an attractive vehicle for portfolio diversification. Several studies show that there is increasing evidence that financial speculation in the commodity markets has been one of the driving factors behind rising food prices and volatility.

You mention quinoa in the Andes as one example that shows how turning a local crop into a financial product may be detrimental to the health and wealth of local communities?

The case of quinoa shows how local communities have seen their access to nutrient-rich food reduced because of financial speculation. The development of quinoa, the “miracle grain of the Andes” into a major Bolivian export crop led to improved income for farmers. However, it also brought steep local price increases that reduced or prevented access by the majority of the Bolivian population to this highly nutritious traditional food source. One policy consideration could now be to implement price controls on the domestic market for quinoa.

Your study includes a series of proposals to curb commodity speculation. What are they?

First, impose position limits on commodities traders. Such limits are currently under review both in the US and the European Union. Imposing a tax on such transactions is another option. An interim solution could be the introduction of a position management system, whereby once a trader reaches a predetermined limit they would have to provide further information before being allowed to go forward.

Secondly, reduce speculation in food staples. In India, an outright ban on speculation in wheat commodity futures market was introduced since the onset of the food crisis, leading to a reduction of domestic wheat prices.

Thirdly, improve the timeliness, reliability and coordination of agricultural data. Better transparency would also help to reduce reliance on price forecasts by large investment banks, which have a vested interest in market outcomes because most of the undisclosed data available refer to privately held stocks.

Finally you insist that insufficient investment in the agricultural sector coupled with the increasing number of land grabs is also responsible for the worrisome food security situation. Why is that?

We definitely need more government investment in agriculture. It can be by building up commodity reserves since holding stocks for emergencies (as in China and India) made it possible to mitigate the worst price increases. Grain reserves can work in a similar way as strategic oil reserves and can be used both for food security and for signalling to the market.

For the medium and long term, there is also a need to improve the ratio of food crops to cash crops (including biofuels), increase productivity and stimulate employment. As we mentioned earlier, it is also about mitigating the consequences of climate change, addressing water shortages, expanding irrigation techniques and creating incentives for farmers to switch from non food to food crops.

Another area where policy measures can be taken relate to unequal access to land and the necessity to limit foreign acquisition of agricultural land (especially for biofuels and cash crops) in many of the less-developed and developing countries which are already food scarce or insecure.

Finally as recent food price shocks have led to nearly a billion people facing hunger, it is essential to focus on immediate assistance for the most vulnerable by developing social protection, for instance through the provision of cash transfers targeted at poor women and young children. Support programmes such as food stamps or vouchers can also help to shore up consumption while meeting immediate food needs, particularly during times of crisis. Simultaneously, efforts should be made to ensure minimum wages are implemented for all workers and adjusted to reflect changes in food prices.

For more information, see [*Investing in Food Security as a Driver of Better Jobs*](#), 2011 edition of the Institute's flagship report *World of Work* published by the ILO.