# World Hunger Series

## Hunger and Markets

Markets can help alleviate hunger, although for many households opportunities created by markets remain elusive.

Several market-based innovations provide opportunities to break the hunger-poverty trap.

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## High food prices: a market failure threatening food and nutrition security

The world has faced higher food prices since 2001, particularly since 2005. Most of the poor spend a large part of their meagre incomes on food. Small changes in earnings or prices can worsen their nutritional status. Vulnerable populations switch to cheaper food to fill their stomachs, which is less nutritious. Without these nutrients, they become prone to illness, learn less and have lower productivity. Even a few months of inadequate nutrition can have long-term consequences, not only for the individual, but also for the growth prospects of a country.

High food prices have eroded the coping capacities of both households and countries across the developing world. On top of this, the global financial crisis is leading to slower economic growth, higher unemployment, lower export revenues, less foreign capital, lower remittances, depreciating exchange rates and mounting budget pressures leading to lower expenditures on safety nets.

Most forecasts expect food prices to remain volatile and high compared to 2005 because of structural factors, such as low stocks, slow productivity growth, climate change and demand for biofuels.

## Markets often reinforce the hunger-poverty trap

This World Hunger Series explores the complex relations between markets and hunger. Markets can be important vehicles for development and hunger alleviation; but they can also perpetuate hunger.

## Markets can fail, particularly affecting the hungry poor

The hungry poor depend on markets. They buy food; they sell their crops or livestock; and they sell their labour to earn income. Poor farmers often sell low and buy high because of market failures.

## Food markets' recent troubling features

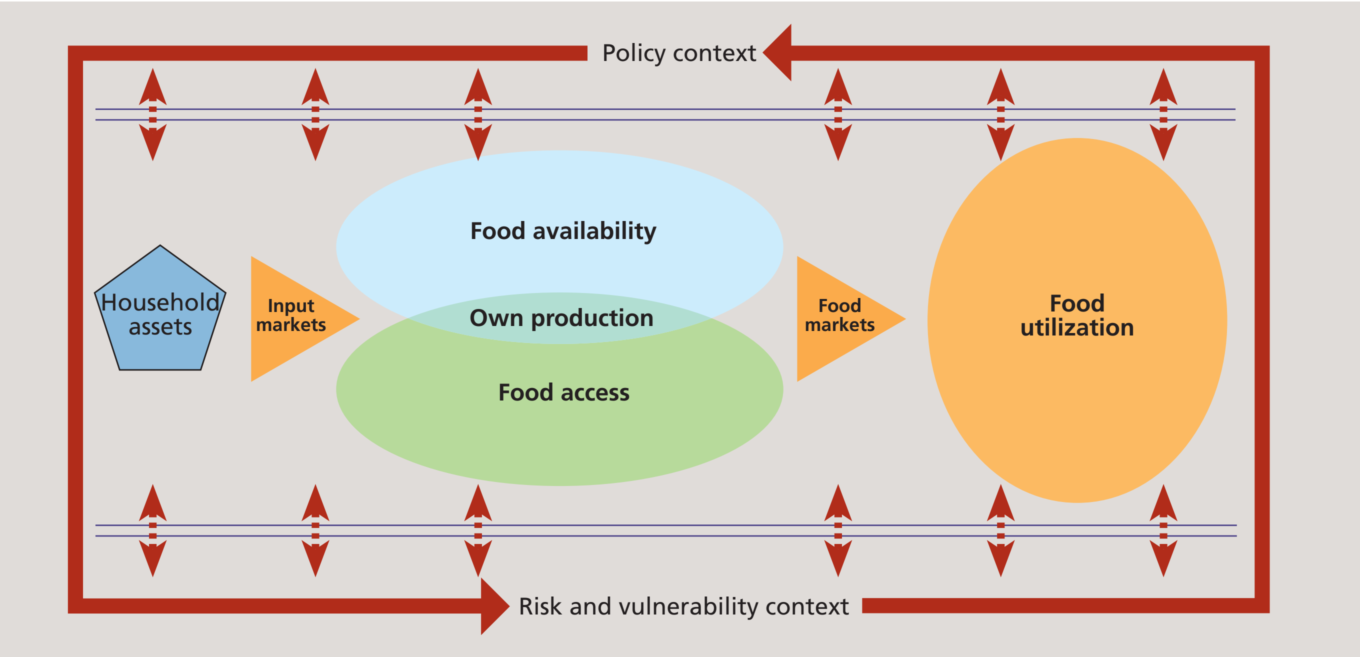
Prices soared; supplies were not available; dependence on cereal imports increased. Vast amounts of institutional investments moved into commodity markets. Futures contracts did not converge to spot prices when delivery dates approached. Supermarkets provide cheap food, which is processed and high in fat and sugar, contributing to obesity and disease.

## Poor farmers often sell low and buy high because of market failures

Many of the hungry poor are farmers with few assets, such as land. Their agricultural production is low and partly serves as household subsistence. They cannot get credit and they generally have to sell low at harvest time to cover their cash needs, when supply is abundant and prices low, and buy high during the lean period.

## Access to markets is difficult for the hungry poor

The hungry poor lack access to markets because they are too far away, too costly, too difficult to enter, too risky, missing or rigged against them because of lack of information and market power. Markets do not respond to need, but demand. Low incomes and few goods to buy or sell limit the poor.




Assets are vital to market participation, also helping households to get access to credit. The hungry poor lack sufficient assets to enjoy the benefits of markets. The "supermarket revolution" is making it even more difficult for small farmers to benefit from markets because of high quality and quantity requirements. However, innovations such as contract farming and WFP's Purchase for Progress could assist along with mobile telephones which provide information and financial services.

## Having enough calories does not mean nutrition security

Markets enhance availability and access to nutritious food. If markets work well, food moves from food-surplus regions to food-deficit regions. In southern Africa, bags of maize on bicycles helped avert a crisis in 2001-03. But, policies often focus on the availability and access to calories, ignoring the importance of micronutrients. Food security frequently coexists with nutrition insecurity. Increasingly, markets can improve access to nutritious food, but they cannot necessarily eliminate micronutrient deficiencies. These require specific interventions and investments in nutrition.

## Markets can increase, transfer or reduce risk for the hungry poor

The hungry poor have limited margins and assets which means they are less able to take risk and innovate. They engage in low-risk activities, yielding low returns, such as subsistence food production. Such risk aversion is a driving force behind the hunger-poverty trap.

Financial markets are important for transferring risk; lack of access to such markets is a major impediment for many food-insecure households.

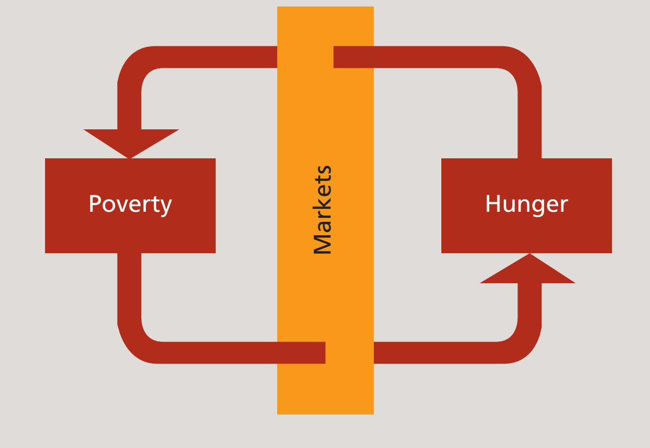
## Emergencies often deepen the hunger-poverty trap

When faced with a shock, poor households are more likely to reduce food consumption – rather than sell assets – to prevent falling into the hunger-poverty trap. But a shock may equally force them to sell assets to buy food, thus reducing their chances to escape from poverty. This situation worsens if asset prices fall because of emergency sales. Efficient markets, e.g. allowing food imports, can help during emergencies. Unfortunately, market failures often multiply during disasters because of insecurity or damage to infrastructure and institutions.

## Markets where possible; governments where needed

At times the importance of markets for food security has been exaggerated. At other occurrences their role has been underestimated. The same holds for the performance and significance of governments. It is essential to be well-informed about markets and how they relate to the needs and opportunities of the hungry poor in order to properly design and implement actions in the fight against hunger.

Failed markets can reinforce the vicious cycle of poverty and hunger




## The World Hunger Series highlights advantages and disadvantages of specific market-based actions to fight hunger.

To use markets as an instrument to break the hunger-poverty trap, governments, international groups and private actors should work together on 10 market-based priority actions to:

- Take market dynamics into consideration for sound hunger alleviation initiatives;
- Support markets through investments in institutions and infrastructure;
- Improve access to complementary markets, such as financial markets;
- Use the power of markets to transform market dependency into opportunities;
- Reduce market-based risks and vulnerabilities and safeguard markets in emergencies;
- Invest in social protection;
- Invest more in nutrition and differently in agriculture;
- Ensure that trade supports food security;
- Engage domestic and international actors in the fight against hunger; and
- Create and leverage knowledge.

**"Left to their own devices, markets can produce distressing results. Food prices can spiral out of control because of speculative pressures. Income distribution widens rapidly as scarce capital and skills are rewarded and abundant labour is underemployed. Poverty and hunger are a common outcome even with bumper crops and food surpluses. Markets do not care about such results and, indeed, seem to encourage them.**

**Surely, governments can do better. But the track record is not so bright there either. Throughout history there have been examples of the damage that governments can wreak on their own people. Socialist organization of an economy, however well intentioned, simply does not work. As a result, there is a pragmatic quest for a middle way, where careful supervision of markets by informed governments leads to a market economy that can generate "pro-poor" economic growth. The goal is to provide access to productive jobs and stable and affordable food prices for the poor.**

**This vision of a middle way motivates WFP's *World Hunger Series – Hunger and Markets*. Specialists might quibble at the margin with specific recommendations or judgments, but its argument that markets can be made to work for the poor is powerful and persuasive. Governments need to make the right investments in rural infrastructure, effective food policy, and nutritional interventions. When they do, it is possible to avoid the two extremes, which can clearly be a disaster for the poor."**

C. Peter Timmer *Non-Resident Fellow, Center for Global Development, Washington DC*

## Hunger Facts

- The FAO Cereal Price index was at its peak in 2008 – 322 per cent higher than in 2000. In December 2008 the index was still double the 2000 level.
- 115 million more people became hungry during 2007 and 2008 as a result of high food prices, pushing the total close to 1 billion people.
- 2.2 billion people suffered from hidden hunger or micronutrient deficiencies, even before the crisis.
- Poor households spend between 50 and 80 percent of their expenditures on food.
- Even the middle class in developing countries (earning between $6 and $10 a day) spend between 35 to 65 percent on food.
- During 2006–08, there were about 300 million pregnant women and children under 2 (among the most vulnerable groups) in 61 countries that were identified as being at risk to high food prices.
- Even a few months of inadequate nutrition can have lifelong consequences.
- The cost of hunger amounts to as much as 11 percent of GDP in some countries.
- More than 400 million people spend at least 5 hours to reach a town of 5,000 people or more.
- Typically, less than 30 percent of farmers who grow food are net-sellers.
- Supermarkets are increasingly dominating food retailing and already account for more than 50 percent of food retail sales in many countries in East Asia and Latin America.
- More than 90 percent of the world's cereal imports come from only 10 exporters, making importing countries very vulnerable.