

## Introduction

Food insecurity in Latin America and Caribbean region has increased significantly since the start of the COVID-19 pandemic, with those most vulnerable to food insecurity and malnutrition having faced difficult challenges to meet essential needs. The conflict in Ukraine started at a time when countries in the region were already dealing with the economic damages caused by COVID-19, resulting in rising inflation, production deficits and strained Government capacity to offset the effects of the pandemic.

These combined crises are amplifying the effects of historical drivers of food insecurity in the region, resulting in a complex economic situation that threatens to worsen post-pandemic projections and increase the number of food insecure people in the region.

The World Bank estimates that these combined crises will lead to an additional 75 million to 95 million people living in extreme poverty worldwide in 2022<sup>1</sup>.

As the Russia-Ukraine conflict enters its third month, this paper aims to provide an overview of main developments from a macro-economic perspective and estimate potential impacts on the food security situation in Latin America and the Caribbean, as well as on WFP operations in the region.

## Deteriorating food security situation

The results of a WFP remote assessment in countries where WFP has presence in the LAC region have confirmed a deteriorating trend of the food security situation, with the number of severely food insecure people passing from 8.7 million (Dec. 2021) to **9.3 million**<sup>2</sup> (Mar. 2022).

Table 1 Food Security Estimations (WFP, April 2022)

Country	Severely Food Insecure (April 2022)
Bolivia	1,609,280
Caribbean	693,000
Colombia	1,031,358
Dominican Republic	292,894
Ecuador	2,432,833
El Salvador	47,000
Guatemala	58,000
Haiti	1,338,000
Honduras	241,000
Nicaragua	9,847
Peru	994,000
Venezuelan migrants Colombia	237,668
Venezuelan migrants Ecuador	98,224
Venezuelan migrants Peru	239,196
<b>TOTAL:</b>	<b>9,322,299</b>

The rapid (food) inflation, causing significant loss of purchasing power, the increased use of food-related/livelihood coping mechanisms and loss of income are the main factors behind this deterioration in food security. The region is facing unprecedented macro-economic conditions as a result of the combined effect of the pandemic and the conflict in

<sup>1</sup> The World Bank (April 2022). *Macro Poverty Outlook: Country-by-country analysis and projections for the developing world*.

<sup>2</sup> This estimate does not include Cuba and Venezuela.

Ukraine. To account for the complexity of this situation, two scenarios<sup>3</sup> have been developed for the estimation of the number of people in need:

**Scenario 1** (*conflict is solved within 2 months*): this scenario would bring the total number of severely food insecure people in the region to a total of **11.3 million**.

**Scenario 2** (*conflict continues beyond 2 months*): this scenario would bring the total number of severely food insecure people in the region to a total of **13.3 million**.

Although to a different extent, and based on the dynamics regulating the conflict, both scenarios estimate an alarming situation for the region caused by the simultaneous occurrence of complex drivers of food insecurity and poverty, such as: the economic damage of the pandemic, the global consequences of the conflict, the effect of climate change and insecurity.

## Migration

The deterioration of food security is also negatively impacting migration dynamics within the region. Results from the latest assessments show that an increased number of people interviewed (+4%) has expressed the intention to relocate to another country.

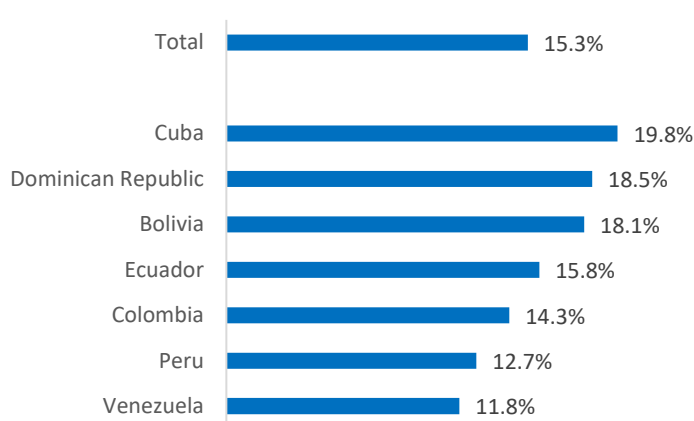


Figure 1 Intentions to migrate (resident population) (WFP, April 2022)

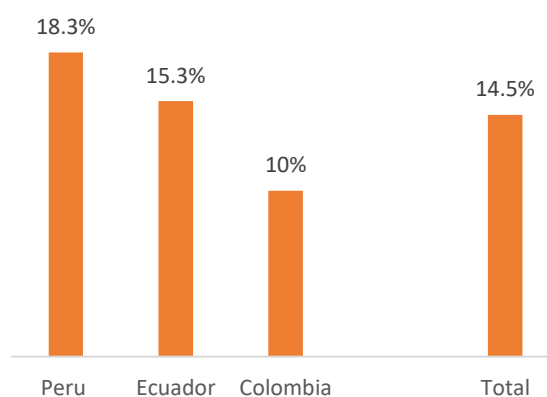


Figure 2 Intentions to migrate (Venezuelan Migrants in Ecuador, Peru, and Colombia) (WFP, April 2022)

A similar finding is observed when analyzing migrant populations in Ecuador, Peru and Colombia who also show an increased intention to move to another country (+1.6%).

## Increased risk associated with the upcoming hurricane season

An above-average hurricane season is highly expected this year in the North Atlantic, including the Caribbean Sea and the Eastern Pacific basins. The current projections of food insecurity could be further aggravated, as this would represent the third consecutive above-average hurricane season in the last three years. Hurricanes are likely to cause flooding, which could impact the harvest of the Primera season in some areas (July to August). They could disrupt agricultural activities during the second rainy season (August to November), which coincides with the peak of hurricane activity (August to October) and expected to be more intense this year.

Analyses point to an early start of the season in May and a slightly more intense hurricane season, about 25% higher than last year and representing 160% of the average.

<sup>3</sup> To gauge the changes due to the conflict, we model the transmission of assumed increases in international prices for wheat, maize and oil to domestic prices.

**High risk:** given the warmer than average sea surface temperature in the northern Caribbean Sea and the potential continuation of La Niña event up to August and beyond, countries such as Cuba, Haiti, Dominican Republic, and Puerto Rico will be at high risk of cyclone threat.

**Moderate risk:** a moderate risk of cyclone threat is also expected for countries in the Caribbean side of Central America, particularly Guatemala, Honduras, eastern Nicaragua, and Belize, as well as the Pacific side of Central America and El Salvador.

## Turmoil in global markets

### All-time high food prices<sup>4</sup>

The conflict began in an economic scenario already characterized by record high global food prices. The FAO Food Price Index (FFPI), a measure of the monthly change in international prices of a basket of food commodities, averaged 159.3 points in March 2022 (+17.9 points from February), recording its highest value since its inception in 1990. The latest increase reflects new all-time highs for vegetable oils (+23.2%), cereals (+17.1%), and meat (+4.8%) sub-indices, while those of sugar (+6.7%) and dairy products (+2.6%) also rose significantly.

Conflict-related disruptions in global exportations from Ukraine and Russian Federation, coupled with concerns over crop conditions in the USA, have seen world wheat prices increase sharply in March (+19.7%).

Record high prices are also registered for maize (+19.1%), with Ukraine being a major exporter, barley (+27.1%), and sorghum (17.3%).

Rising food inflation represents a worrisome threat for the economies in the region (Figure 1). Countries were already experiencing symptoms of increased prices during the pandemic, as the region was one of the hardest hit in the world.

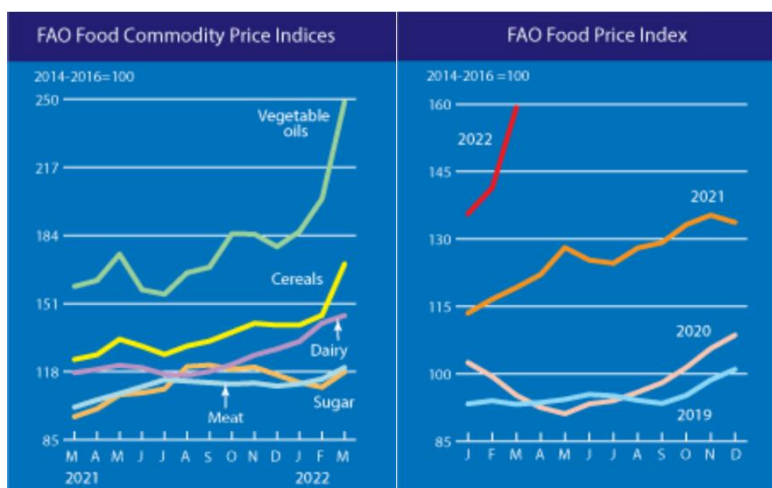


Figure 3 FAO Food Price Indices (April 2022)

The conflict has further exacerbated this trend, which represents a rising threat for the poorest and most vulnerable households in the region who remain with little or no resources to cover food and other essential needs.

Current projections point to an increasing trend of inflation in 2022, mainly as a consequence of rising commodity prices and the impact of the conflict on global supply chains.

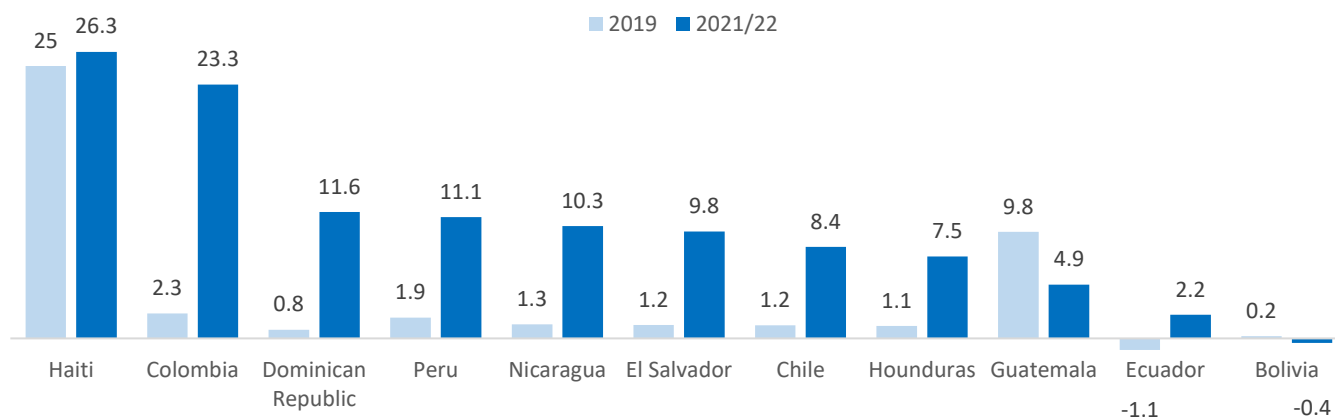


Figure 4 Food inflation rate (2019-2021/22), (Trading Economics)

<sup>4</sup> FAO Food Price Index (8<sup>th</sup> April 2022).

In terms of food inflation, Venezuela (an outlier not included in the graph) records the highest value in the region with a value of 229 (March 2022), which is nearly 10 times higher compared to the value found in Haiti.

The record high global cereal prices are particularly worrying when looking at the dependence in cereal imports in the region.

The cereal import dependency ratio provides a measure of how much the domestic food supply of cereals has been imported compared to domestic production. The higher the dependency ratio, the higher the dependency on imported cereals. As figure 2 shows, no country is a net exporter of cereals, with imported cereals representing a substantial amount of domestic consumption.

Venezuela recorded the highest dependence in cereal imports in the region in the period between 2016 and 2018, at nearly 69 percent, followed by Dominican Republic (65.5%) and Colombia (61.8%).

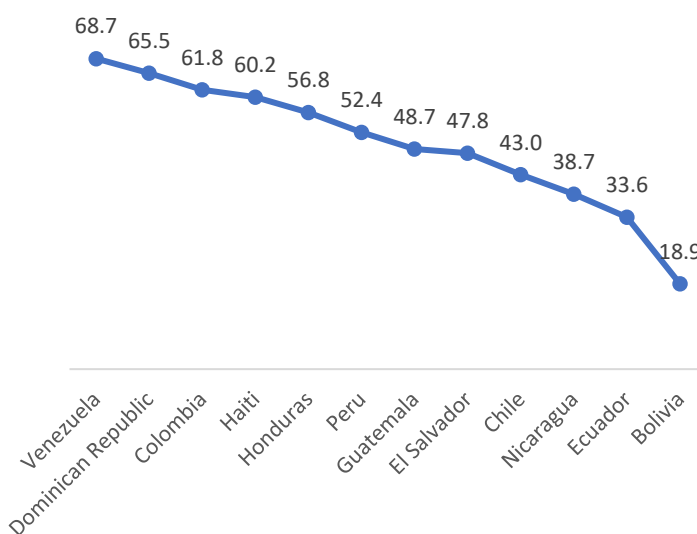


Figure 5 Cereal Import Dependency Ratio (%) (2016-2018), (FAO)

### Energy markets

Elevated energy and input costs are a direct consequence of the conflict and, at the same time, underpinning some of the major increases in global commodity prices.

Crude oil averaged 112.4 (\$/bbl) in March 2022, which represent a +83% increase compared to pre-pandemic levels, and +34% compared to the average price in January 2022 before the start of the conflict.

Over the past 12 months the prices of energy commodities have risen 101.6%. March registered a 24.1% increase in energy prices with crude oil (+20.2%), coal (+49.9%) and natural gas (+55.7%) leading the surge.

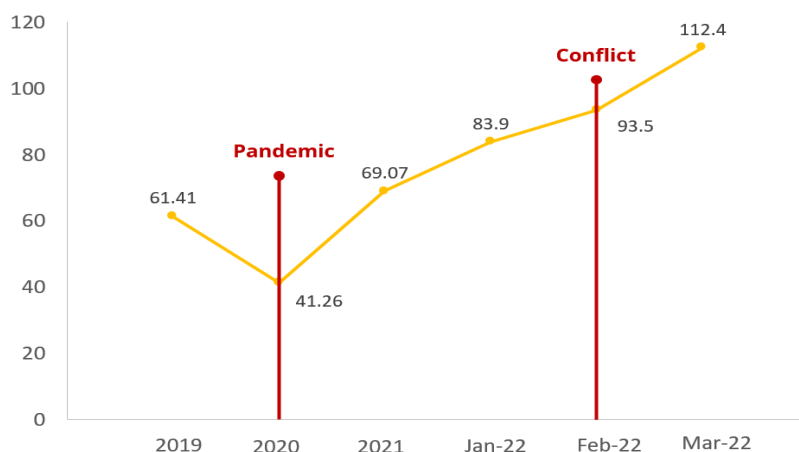


Figure 6 Crude Oil Average Price (\$/bbl)

Among key commodities subgroups, fertilizers register a +20.7% price increase in March. Figure 2 shows the upward trend (2019 - March 2022) of fertilizers prices. When current price (March 2022) is compared to pre-pandemic levels (2019), record-high increases are registered, reaching +270% in the case of Urea, followed by DAP (+206%), TSP (+169%), potassium chloride (+120%) and phosphate rock (+103%).

The cost of fertilizers, an important input for agricultural production, is expected to affect upcoming production cycles and, in turn, the price of food commodities.

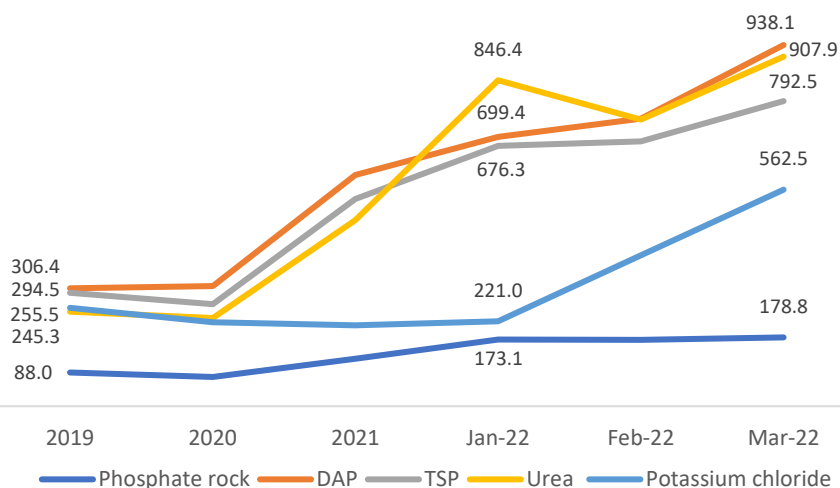


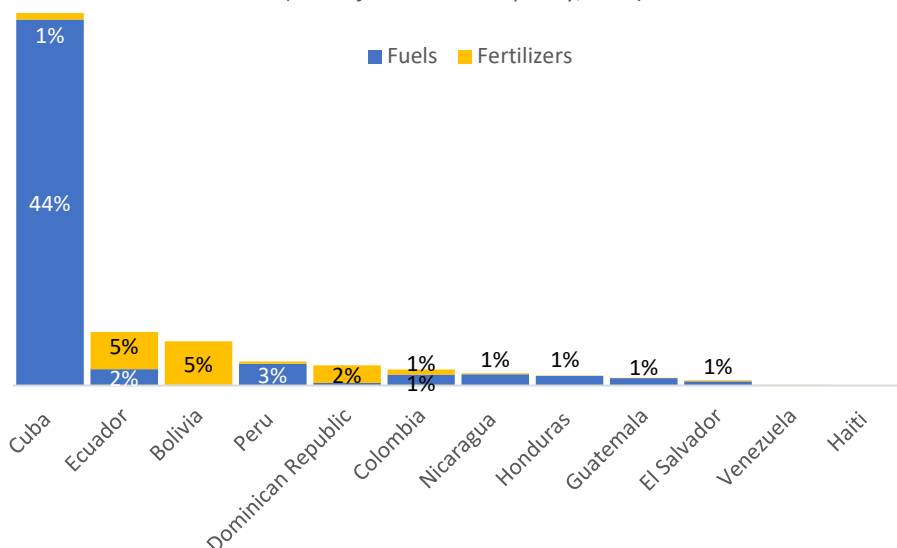
Figure 7 Fertilizer price trend (2019-Mar.2022)

Figure 4 shows the share of fertilizers and fuels directly imported from Russia for each country in the region.

With the exception of Cuba, which relies on 44.4% of fuel imported directly from Russia, the shares of direct import of these two commodities are negligible for the remaining countries.

Despite that, the record-high prices on the global market will heavily impact countries in the region that remain heavily import-dependent.

Figure 8 share of fertilizers/fuel directly imported from Russia, (Atlas of Economic Complexity, 2022)



### Impact on WFP operations

The global economic outlook is also having negative consequences on WFP Operations. Operational costs across the region are expected to increase in 2022. Similarly, WFP annual transportation costs are being heavily impacted by the surge in price of the energy sector, which, in turn, is resulting in an increased operational cost.

From a supply chain perspective, the result of the tender for the regional procurement of food aiming at establishing Food Supplier Agreements (FSAs) show an increased average costs per MT of 27% when compared to the period before the start of the conflict (January 2022). However, the comparison with the pre-pandemic period (2019) registers an average increase of around 111% when purchasing four basic commodities (black beans, lentils, rice, and vegetable oil) in the region.

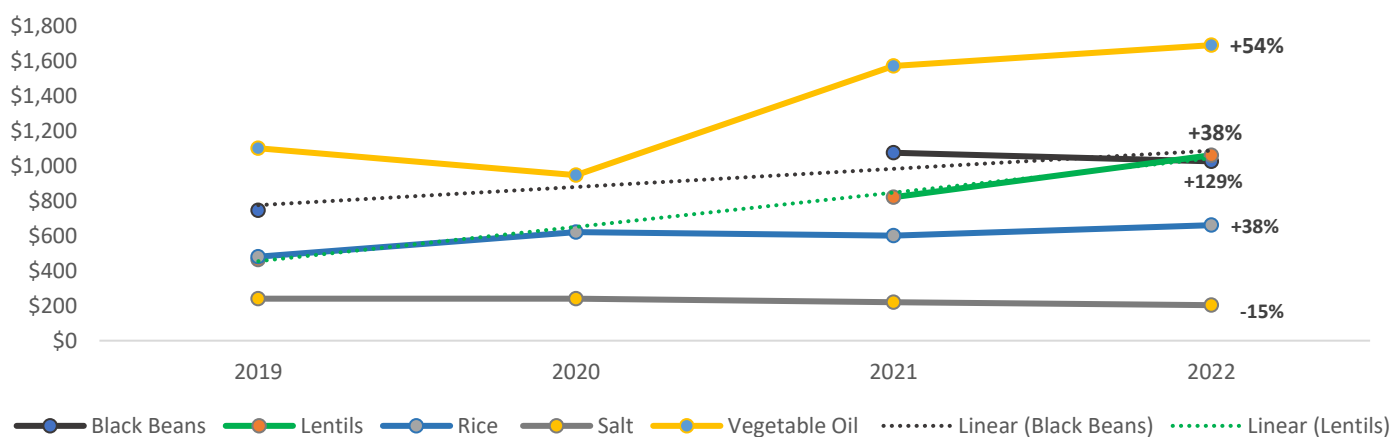


Figure 9 Cost of procurement of food commodities in the region (WFP)

The global surge of commodity prices is also negatively affecting WFP cash-based programmes in the region as beneficiaries are seeing their purchasing power eroded.

Declining living standards and increases in food, fuel and electricity costs have resulted in protests in several countries across the region and would increase the likelihood of civil unrest significantly, while security conditions will continue to worsen due to the economic downturn. In addition, the increase in commodities prices will lead to public anger and in turn to lower approval ratings for politicians impacting social and political stability. Higher fuel prices create tensions with unions of bus, taxi, and cargo truck drivers which are politically influential and have the potential to strike and shut down ground shipping and transportation options. This issue is already taking shape across the region with truckers going on strike in Peruvian, where violent protest took place at the beginning of the month, in El Salvador the government is at odds with transportation workers over how fares are being managed, while protest have been reported also in other countries such as Panama, Colombia, Guatemala, Honduras.

## Funding Outlook

The periodic adjustment of the transfer values is resulting in increased funding needs to assist the most vulnerable people across the region, in a context where Governments show an eroded fiscal space resulting from the level of assistance provided during the pandemic.

As a result of the Ukraine crisis, WFP's operational costs are increasing at a rapid pace, exacerbating an already precarious funding situation across our operations in the region. For instance, in Venezuela and in Nicaragua, food transfer value (FTV) and food transfer costs (FTC) have increased by 11 % just over the past few months, while in Haiti we have witnessed a 5% increase. Other countries across the region are also affected.

In addition, due to inflation and increased commodity prices, Cash Based Transfer (CBT) values are also being impacted and currently being revised upwards to ensure that vulnerable populations can meet their basic food needs.

WFP urgently requires US\$315 million to cover its operational costs across the region over the next six months. Unfortunately, due to continued increase of operational costs, lack of funding will require the organization to reduce the number of beneficiaries that it plans to support, further impacting an already worrisome food security situation in LAC.

Table 2 Net funding requirements (May-Oct. 2022) (WFP RBP)

NET FUNDING REQUIREMENTS (for the next six months May-October 2022)				
COUNTRY	REQUIREMENTS	RESOURCED NEEDS	FUNDING REQUIREMENTS	FUNDING GAP (%)
Bolivia	5.0M	2.6M	2.4M	48%
Caribbean MCO	11.0M	1.8M	9.1M	83%
Colombia	138.2M	44.6M	93.5M	68%
Cuba	13.1M	8.7M	4.4M	34%
Dominican Republic	7.3M	6.5M	0.8M	11%
Ecuador	21.8M	7.9M	14.0M	64%
El Salvador	16.5M	0.0M	16.5M	100%
Guatemala	27.3M	20.0M	7.3M	27%
Haiti	119.4M	37.5M	82.0M	69%
Honduras	28.3M	10.6M	17.6M	62%
Nicaragua	24.7M	9.5M	15.2M	62%
Peru	19.4M	13.5M	5.9M	30%
Venezuela	70.2M	21.5M	48.7M	69%
<b>TOTAL (6 months)</b>	<b>502.3M</b>	<b>184.8M</b>	<b>317.5M</b>	<b>63%</b>