

# Towards the Summit commitments

## Policy responses: effective and sustainable?

The sudden rise in global food prices has triggered a wide variety of policy responses around the world. Initial action has focused on guaranteeing an adequate food supply locally, keeping consumer prices low and providing support for the most vulnerable. Policy measures have included an easing of import taxes and the imposing of export restrictions to maintain domestic food availability; applying price controls and subsidies to keep food affordable; and stock drawdowns to stabilize supplies and prices. There has been less emphasis, at least initially, on fostering an agricultural supply response. However, the governments of a number of developing countries have taken action to provide farmers with the support needed to boost domestic food production.

A survey of policy responses in 77 countries revealed that in 2007 and early 2008 about half of the countries reduced cereal import taxes and more than half applied price controls or consumer subsidies in an attempt to keep domestic food prices below world prices.<sup>12</sup> One-quarter of the governments imposed some type of export restriction, and roughly the same proportion took action to increase domestic supply by drawing on foodgrain stocks. Only 16 percent of the countries surveyed had not employed any policy response to mitigate the impact of soaring food prices. Policy responses varied considerably by region, with sub-Saharan Africa and Latin America and the Caribbean showing the lowest number of policy interventions.

The impact, effectiveness and sustainability of some of the policy measures are not always clear. First, by maintaining farmgate prices at artificially low levels, policies may be discouraging the much-needed

supply response and potential productivity increases. Second, export restrictions lower food supplies in international markets, pushing prices higher and aggravating the global situation. Third, higher subsidies and/or lower taxes and tariffs increase the pressure on national budgets and reduce the fiscal resources available for much-needed public investment and other development expenditure.

In summary, some of the policy measures employed tend to hurt producers and trade partners and actually contribute to volatility of world prices. Experience has shown that price controls rarely succeed in controlling prices for long. Moreover, they place a heavy fiscal burden on governments and create disincentives for supply responses by farmers. In a number of countries applying export controls (or outright bans on exports), some farmers have reduced plantings of cereals because of artificially low domestic prices for their products coupled with high prices for inputs such as fuel, seeds

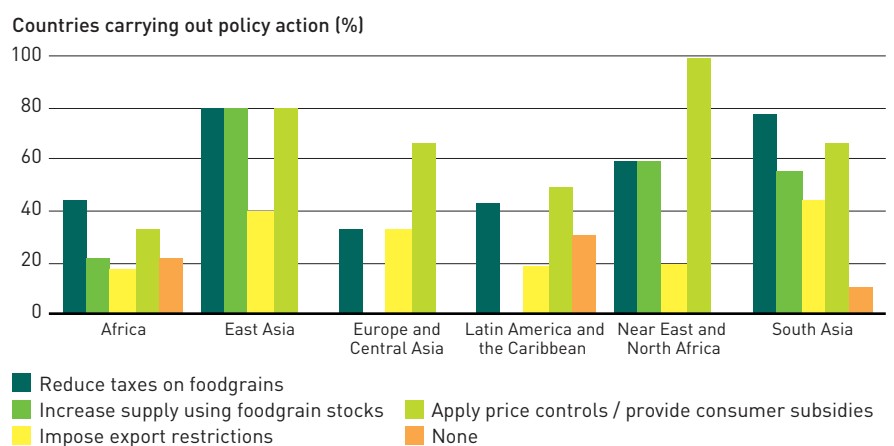
and fertilizers. As the box shows, the ability of government policies to insulate domestic economies from the external price shock has been very limited.

### The way forward: the twin-track approach

The initial policy responses to the dramatic increase in food prices concentrated on improving local food supplies and alleviating the immediate impact on consumers. However, it has become clear that in order to deal with the short- and long-term challenges posed by high food prices and reinforce the opportunities they present, both national governments and the international community require coherent policies and actions. The sustainable solution to the problem of food insecurity in the world lies in increasing production and productivity in the developing world, especially in LIFDCs, and in ensuring that the poor and vulnerable have access to the food they need.

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### Policy actions to address high food prices, by region



Note: Based on preliminary information collected by World Bank staff and amended by FAO (April 2008).

Source: FAO.



In line with this, FAO has advocated for the *twin-track approach* as an overall strategic framework for fighting hunger. Now widely adopted by the development community, it addresses both short- and long-term challenges to food security and is highly relevant in the current context of high food prices. One track aims to promote the supply response of the agriculture sector and the development of the rural areas through appropriate incentives and investments in public goods. The objective is to increase food supplies and to enhance the income-generating capacity of agriculture and the rural economy as a means of promoting overall rural development. In order for policies to reduce poverty significantly, a strong focus on the productive capacity of smallholder farmers is crucial. The other track of this approach aims to ensure immediate access to food for the poor and vulnerable in both rural and urban areas through the provision of safety nets and social protection measures.

Both components of the twin-track approach are crucial and mutually supportive. Developing agriculture and the rural economy provides opportunities for the poor to improve their livelihoods, a necessary condition for a sustainable reduction in food insecurity. Improving direct access to food and nutrition enhances human capacity and the productive potential of those at risk of nutritional deficiencies. It also allows them to take fuller advantage of the opportunities offered by development. Given that 75 percent of the poor live in rural areas, focusing on agriculture and rural development is crucial to achieving a substantial and sustainable reduction in hunger and poverty.

## Policy trade-offs

Developing countries face difficult macroeconomic choices as a result of high food and fuel prices.

Inflation has been rising throughout the world, with food price inflation generally outpacing that for other goods and services, especially in developing countries (where food tends to account for a much larger share of the consumption basket).

Management of inflation presents difficult policy trade-offs with important implications for food security. Raising interest rates will help to reduce inflationary pressures but tend to reduce investment and cause the exchange rate to appreciate, with adverse effects on exports, growth and employment. This may reduce the incomes of the poor and, hence, their access to food. On the other hand, continued rapid price increases will erode the value of real wages and the purchasing power of wage earners, with adverse effects on food security.

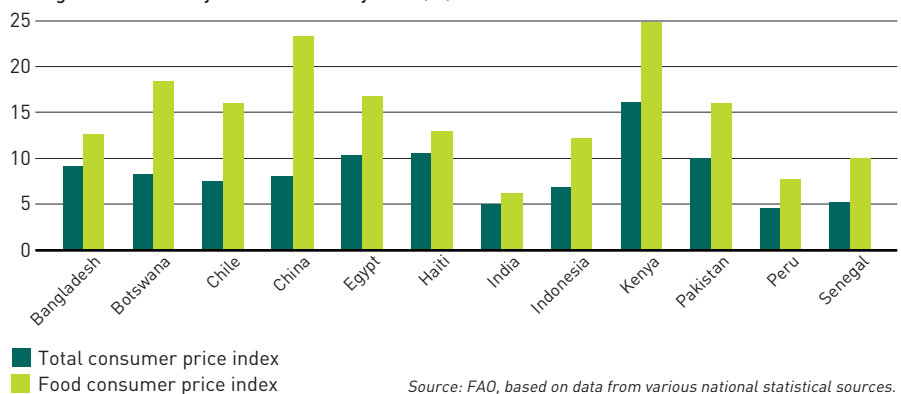
Attempts by governments to shield consumers from rising food prices through general subsidies or the establishment of safety nets are costly and cause budgetary constraints for

low-income countries. If domestic prices rise in line with world prices, procuring food domestically for resale to targeted groups will entail increased budgetary outlays. Restricting exports in order to maintain domestic consumption will result in lost export revenue and foreign-exchange earnings. Some countries may be able to finance budget deficits for a limited period, but others with rudimentary financial systems may need substantial external assistance to deal with macroeconomic imbalances. LIFDCs will be particularly hard pressed as they may need to reduce development budgets and divert foreign exchange away from other essential imports in order to secure adequate and affordable food supplies.

In conclusion, higher food prices present governments with difficult trade-offs. They can: (i) reduce subsidies and risk an immediate deterioration in food security; (ii) reduce investment in public goods, such as health, education and infrastructure, and risk slowing the pace of longer-term growth and development; or (iii) do neither and risk substantial macroeconomic imbalances that also threaten long-term growth and welfare.

### Rising food prices and overall inflation

Change from February 2007 to February 2008 (%)



Source: FAO, based on data from various national statistical sources.

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## Smallholder agriculture for poverty reduction

### Food prices, production and food security

Increased food production would help to restore the supply–demand balance at a lower price level. High food prices and the increased incentives they provide present an opportunity for agricultural producers to increase investment and expand production. Initial signs indicate that the agriculture sector has responded to these greater incentives with increased plantings and production.

However, the need to increase food production should not only be seen in the context of the current supply and demand “imbalances”. Increases in food and agricultural production and productivity will be essential for meeting further increases in effective demand in the years to come. Demand for food and feed will continue to grow as a result of urbanization, economic growth and rising incomes, all of which cause a shift in diets towards higher-value products, including meat and dairy. Projected population and socio-economic growth will double current food demand by 2050.

In order to meet this challenge in developing countries, cereal yields will need to increase by 40 percent and net irrigation water requirements will rise by 40–50 percent. Moreover, some 100–200 million hectares of additional land may be needed, mainly in sub-Saharan Africa and Latin America.<sup>13</sup> An estimated 80 percent of the increase in global food production must come from growth in crop yields. To this, the new demands for feedstock for an expanding bioenergy sector should be added.

Going beyond simple balances between global food needs and

availability, a question that is central for food security concerns relates to who participates in the short- and long-term response of agriculture to high food prices and in meeting future food needs. In other words, increasing food production is a necessary but not a sufficient condition to address the recent increase in food insecurity caused by high food prices (represented by an additional 75 million people now hungry) as well as the long-term structural insecurity represented by the close to 850 million people who were suffering from hunger even before the recent price rises.

### Why smallholder farmers?

In order to ensure that increased food production enhances food security, developing countries must be able to exploit their potential to increase agricultural production and productivity through a more conducive policy framework and increased investment in agriculture and rural development by both

national governments and international donors involved in agriculture and rural development.<sup>14</sup>

The magnitude of hunger in the world and the difficulties in reducing it even when food supplies are high and prices low highlight a fundamental problem of access to food. Even low food prices will not fully address the problem of inadequate access to food, which is also affected by the ability of the poor to produce enough food or generate sufficient income to buy it.

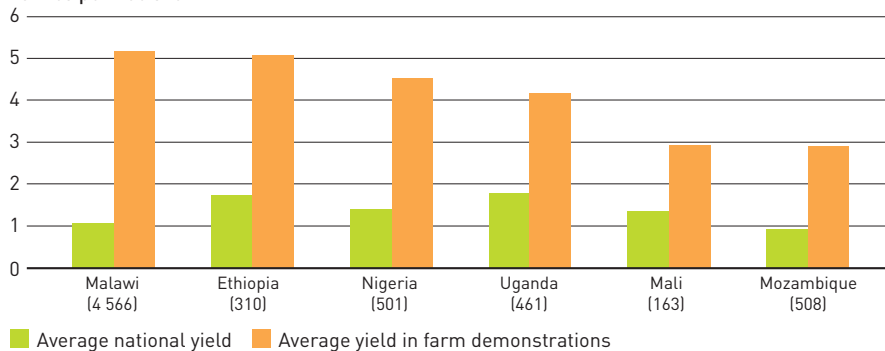
On the other hand, as most poor rural households rely on agricultural production for a significant share of their income, increasing agricultural productivity is closely related to reducing rural poverty. It follows that increasing food production and productivity should go beyond the objective of reducing prices in global markets – providing an opportunity for reducing rural poverty and hunger.

Realizing the potential of food and agricultural production to reduce poverty and hunger depends largely

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### Maize: exploitable yield gaps in sub-Saharan Africa

Tonnes per hectare

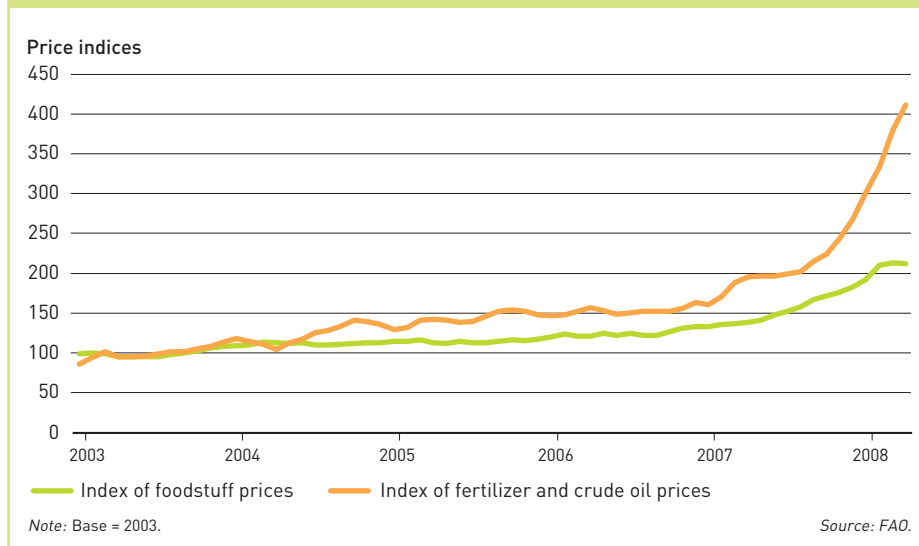


Notes: Number of plots in parentheses. Open pollinated improved varieties in all cases except Nigeria, which uses hybrids. Data are for 2001 for Ethiopia, Mozambique, Nigeria and Uganda; 2002 for Malawi; and an average of 2001, 2002 and 2004 for Mali.

Source: World Bank. 2007. World Development Report 2008: Agriculture for Development. Washington, DC.



## Input prices outpace food prices



on the degree to which smallholder farmers, representing 90 percent of the rural poor, are able to participate in productive and remunerative farming and off-farm activities.<sup>15</sup>

About two-thirds of the 3 billion rural people in the world live off the income generated by farmers managing some 500 million small farms of less than 2 hectares each. Hence, efforts to boost agricultural production must focus largely on increasing smallholder productivity. Small-scale farming constitutes about 80 percent of African agriculture, producing largely staple foods.<sup>16</sup> Failure to include smallholders in future strategies will result in further marginalization, increased rural poverty and rising migration of the rural poor to urban areas.

Broad-based agricultural growth that includes smallholders can have a large impact on poverty reduction. In addition to boosting food availability and lowering food prices, improved smallholder productivity

generates higher incomes and demand for locally produced goods and services, resulting in broad-based socio-economic development in rural areas. This dynamic process is a primary reason why agricultural growth is up to four times more effective in reducing poverty compared with growth in other sectors.<sup>17</sup>

Moreover, the potential for increased productivity is often larger on smaller farms because of their efficient use of family labour. Policies promoting smallholders and more equitable land distribution were at the heart of country success stories during the green revolution in several Asian countries (e.g. China, India and Indonesia).

### Input prices constrain incentives

A productivity-led response centred around smallholders requires incentives that reach farmers in the form of higher output prices and improved access to affordable

inputs. However, the prices of many agricultural inputs, such as fertilizer, pesticides and transportation, are closely linked to fossil fuel prices. From January 2007 to April 2008, input prices (fertilizers and crude oil) outpaced food prices, dampening the positive production incentive of the food price increases. To the extent that input costs constitute a sizeable part of the total variable cost of farming, this trend diminishes the extent to which higher food prices will stimulate production response.

### Structural constraints

Broad-based agricultural growth requires significant and systematic efforts to address the diverse constraints affecting smallholders. Such efforts will enable smallholders to increase farm productivity and meet new, more stringent demands regarding food safety and quality.

**Technology.** Access to a regular stream of technologies adapted to specific conditions contributes to increasing productivity, particularly in the context of limited land resources, and, thus, it is important for small-scale producers. For example, in arid zones, investments in improved irrigation technology and drought-tolerant crops help reduce price and income variability by mitigating the impact of droughts. Low levels of publicly funded agricultural research and development have severely impeded small farmers' access to productivity-enhancing technologies. Only a few smallholder farmers participate in contractual arrangements with buyers (such as agricultural commodity value chains or outgrower schemes) that facilitate

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access to improved seeds, inputs and mechanization.

**Market access.** Access to functioning markets for both staples and high-value commodities is a key prerequisite for agricultural

development and improved productivity. Market access differs among developing regions, with sub-Saharan Africa having the lowest level of access, particularly for smallholders. In many developing countries, smallholder

participation is often constrained by: (i) a lack of infrastructure and transport; (ii) poor market information; (iii) inadequate and poorly enforced grades and standards; and (iv) poor farmer organization for bulk marketing.

## Fertilizer use in sub-Saharan Africa: are subsidies the answer?

Fertilizer consumption in sub-Saharan Africa was only 8 kilograms per hectare in 2002, just 1 kilogram more than in 1982 and 7 kilograms more than in 1962. This level of fertilizer use is less than 10 percent of that in most other developing regions. Perhaps as a result, cereal yields increased by just 50 percent in sub-Saharan Africa from 1962 to 2002, compared with a near tripling in the rest of the developing world in the same period. Furthermore, as a result of the low intensity of fertilizer use, Africa's soils are at risk of being mined of nutrients.

The factors responsible for Africa's low level of fertilizer use include poor infrastructure, which increases the costs of fertilizer and reduces availability; high risk owing to price volatility and a lack of irrigation; lack of credit; and a poor business environment shaped by

regulations, taxes and rents that diverts fertilizer provision from the private to the public sector (which tends to allocate supplies inefficiently).

With fertilizer prices outpacing agricultural commodity prices (so undermining the increased production incentives), small farmers who are net food buyers may be particularly hurt, as the high food prices also reduce the funds they have available to purchase fertilizers. Many poor African countries may see a decline in fertilizer use in the short run that could threaten even current levels of production, which are already too low.

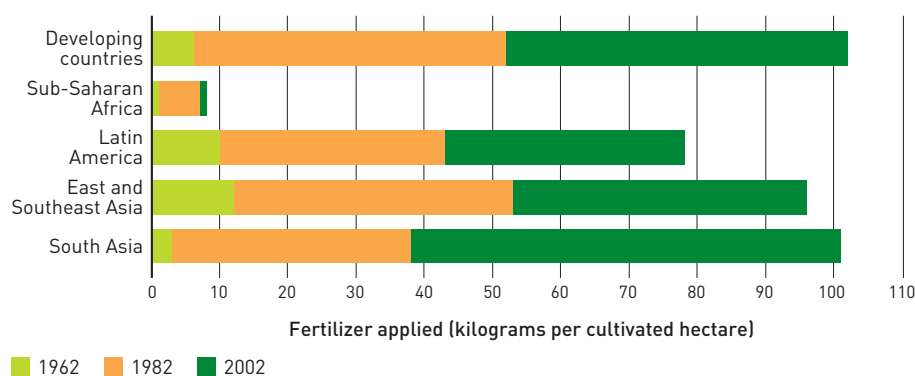
The rapid rise in fertilizer prices has brought the issue of fertilizer subsidies to the fore. Such subsidies may be warranted where there is a clear prospect of significant productivity gains, where they are a cheaper form of income transfer

than alternatives (such as food aid) and where they do not affect market mechanisms adversely. "Market-smart" subsidies include the use of vouchers redeemable through commercial dealers, demonstration packs to stimulate demand and credit guarantees to encourage importers to offer credit to their dealers.

If input subsidies are to be used to promote a supply response, several constraining factors need to be considered. In some locations, adequate supplies may not be available and a subsidy will merely lead to local price inflation. Subsidies are expensive and can put stress on government budgets, causing reductions in spending in other important areas such as education and health (international donors may have a role to play in alleviating these constraints). If efforts to target are made in order to reduce budgetary outlays, administrative difficulties could prevent the subsidies from reaching the beneficiaries most in need. These considerations suggest that although fertilizer subsidies can be an effective short-term response, they are not sustainable in the long run. Whenever input subsidies are used, they should involve the private sector in order to improve and build marketing systems in the long run.

Sources: FAOSTAT data and M. Morris, V.A. Kelly, R.J. Kopicki and D. Byerlee. 2007. *Fertilizer use in African agriculture: lessons learned and good practice guidelines*. Washington, DC, World Bank.

### Fertilizer use





Unless such constraints are addressed, the bulk of agricultural sales will only accrue to a small proportion of large producers.

**Infrastructure.** Rural roads and storage facilities are essential public

goods that reduce marketing costs and expand economic opportunities to all households. Access to transportation and social service infrastructure is much lower for the poorest segments of the rural population.

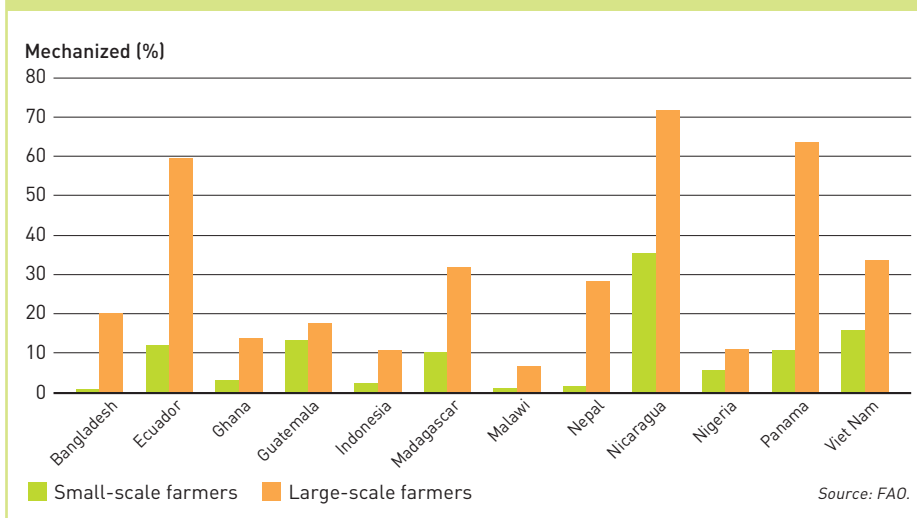
**Assets.** Access to, and use of, physical capital varies considerably both within and among countries. Small landholders consistently employ practices that are less capital-intensive. Similarly, human capital is strongly related to the level of wealth – heads of poorer households are generally less educated than those of richer households. Ease of access to assets largely determines the potential to respond to high food prices and increase income and production. As many assets serve as collateral, households with sufficient assets can exploit investment and agricultural expansion opportunities more effectively.

**Credit.** A large percentage of smallholders suffer from insufficient access to credit. This may reduce their timely access to and use of appropriate inputs. Many successful cash-crop value chains have effectively overcome the lack of rural credit by providing input credit directly to farmers and farmers' associations, with reimbursement at the time of product sale.<sup>18</sup> To the extent that higher food prices provide greater returns to staple food production, smallholder access to cash and credit may improve.

**Risk.** Smallholder agricultural production in the developing world is inherently a high-risk activity, but recent years have seen an increase in both the level and variability of food prices on world markets. To the extent that the greater price variability is transmitted to domestic markets, this creates problems for smallholders and may discourage a supply response. In addition to price volatility, smallholders – and indeed most farmers – lack access to crop and/or livestock insurance or other risk-reducing instruments to deal

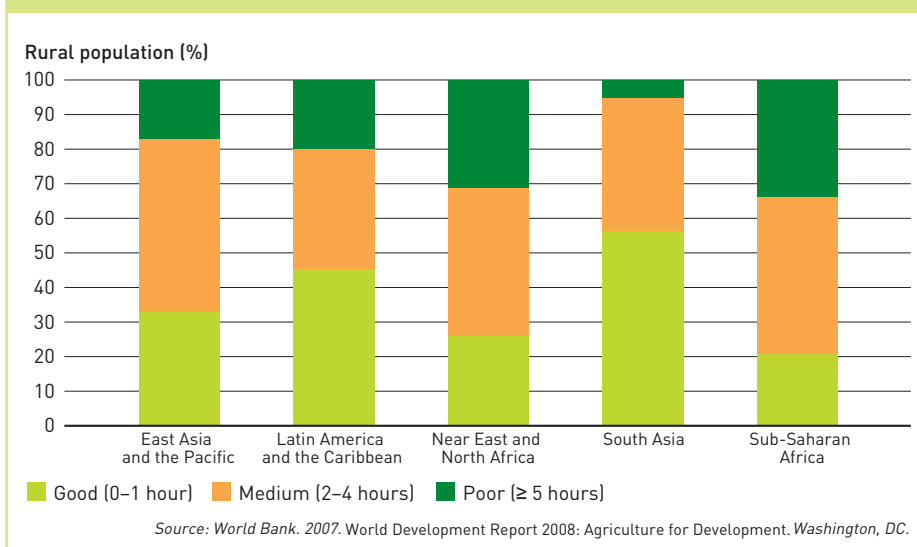
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### Mechanization: small-scale and large-scale farmers



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### Market access: time to market

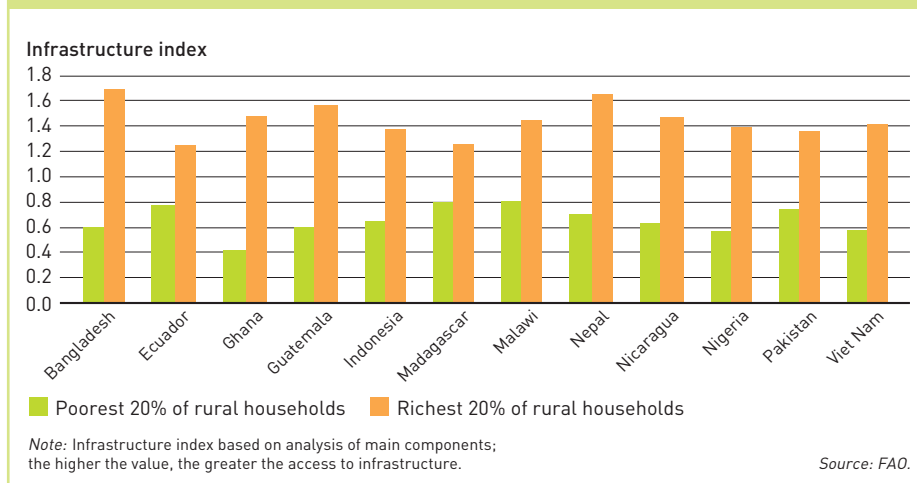




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## Infrastructure access for rural households



with production variability. The unavailability of insurance leads farmers to adopt more risk-averse production strategies or to diversify economic activities away from agriculture. This constraint limits the potential intensification of

agricultural production and adoption of agricultural technology. Recent innovations in weather insurance that promise lower administrative costs should provide an opportunity for farmers to insure more effectively.

## Realizing smallholder potential

The incentives offered by soaring food prices provide a favourable environment for advancing an agricultural reform agenda to meet future food needs at affordable prices through poverty-reducing agricultural productivity growth. Such an agenda puts particular emphasis on smallholder farmers, especially in agriculture-based countries.

Translating this opportunity into concrete action and measurable improvement in the livelihoods of smallholder farmers depends first and foremost on sustained political commitment and investment of governments and development partners to address the numerous constraints on small farmers' incentives and behaviour. Today, higher prices appear to present opportunities to intensify production of certain staple crops and agricultural commodities that might

## Transportation infrastructure for development

Investment in transportation infrastructure is crucial to sustainable agricultural development. Decentralized small-scale agricultural production in the developing world needs broad transportation networks to improve market access, reduce retail fertilizer prices and increase harvest prices for farmers. For several African countries, there would be sizeable benefits in terms of poverty reduction.<sup>1</sup>

Transportation services help to improve trade, welfare and agricultural growth and to reduce the gap between producer and consumer prices. The figure indicates that the difference in input costs between several countries in Africa and the United States of America is almost entirely attributable to transportation costs.

<sup>1</sup> X. Diao, S. Fan, D. Headey, M. Johnson, A. Nin Pratt and B. Yu. (forthcoming). *Accelerating Africa's food production in response to rising food prices – impacts and requisite actions*. Xinshen, June 2008. IFPRI Discussion Paper.

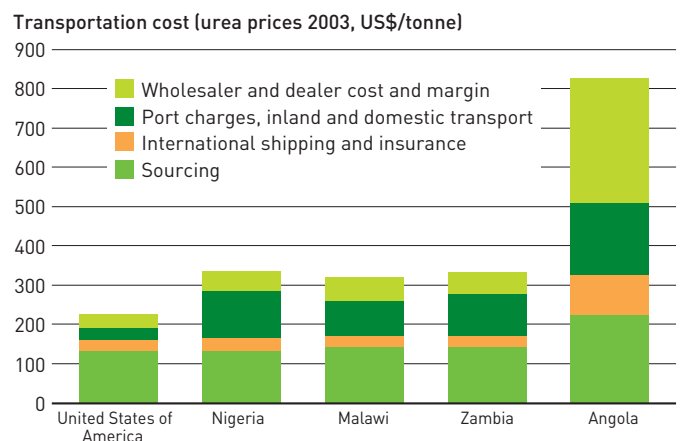


Figure source: D.I. Gregory and B.L. Bumb. 2006. Factors affecting the supply of fertilizer in sub-Saharan Africa. *Agriculture and Rural Development Discussion Paper 24*. Washington, DC, World Bank.



## Irrigation in poor regions

The ability to produce more food for a growing world population has improved significantly in recent decades as a result of expansion in irrigated cropland. Increasing the proportion of irrigated agricultural land has provided a solid base for boosting productivity and reducing the volatility of agricultural yields. With demand for water rising and climate change imposing further restrictions, efficiency in the management of available water resources becomes a necessary condition for productivity increases in agriculture and for food security.

In about 25 percent of the world's irrigated agricultural systems, the rate of water withdrawal exceeds that of renewal. Even more worrisome are reports that water is becoming scarce in several regions. Open access or loose

property rights on water resources and irrigation systems lead to the overexploitation of aquifers and unsustainable irrigation practices that exhaust, contaminate or at the very least increase irrigation costs. Land degradation is also an outcome of inefficient use of water resources and inadequate irrigation management practices, resulting in productivity reductions and increasing losses of cropland. Small-scale farmers are most affected by these practices as they lack the capacity to secure their rights to water as well as the resources to invest in more expensive but more effective pumping tools.

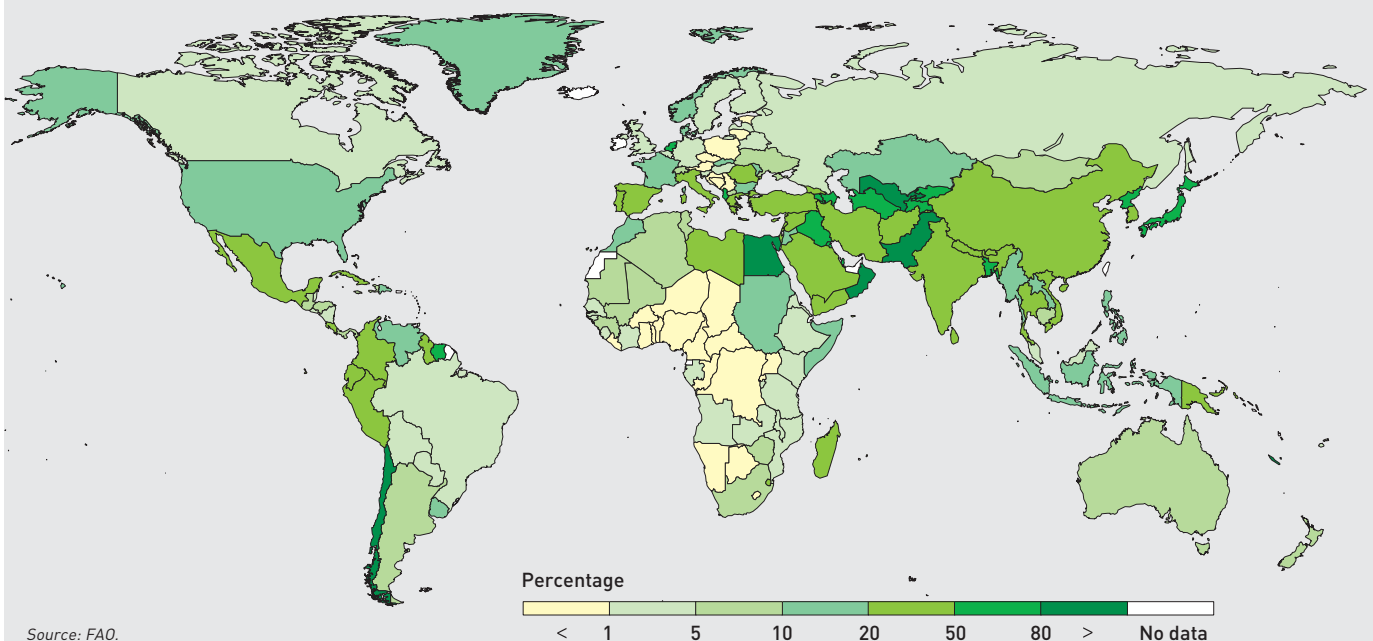
In Africa, less than 5 percent of cropland is irrigated. Large benefits could accrue to small farmers by expansion of irrigated land to increase and stabilize the

level of production, while also minimizing the role of rainfall uncertainty in agriculture. Irrigation investment projects have high rates of return, estimated as exceeding 15 percent and even reaching 30 percent in sub-Saharan Africa.<sup>1</sup> Significant gains in terms of welfare improvements are also expected from expanding irrigation investment. Increasing investment in irrigation by 1 percent has been estimated as having reduced poverty by nearly 5 percent in Kenya.<sup>2</sup>

<sup>1</sup> World Bank. 2007. *World Development Report 2008: Agriculture for Development*. Washington, DC.

<sup>2</sup> J. Thurlow, J. Kiringai and M. Gautam. 2007. *Rural investments to accelerate growth and poverty reduction in Kenya*. Discussion Paper No. 723, Washington, DC, IFPRI.

Percentage of total arable and permanent cropland irrigated





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formerly have been available only for higher-value export crops. This change is positive given the large poverty-reduction effect achieved by growth in food staples relative to growth in high-value exports.<sup>19</sup> Assessing the lessons learned from years of experience with programmes and projects aimed at promoting smallholder productivity is the first step to scaling up what holds the promise of a high payoff.

While some of the constraints facing smallholders in various contexts are similar, priorities may differ among countries and physical environments. In agriculture-based countries in Africa, the emphasis is likely to be on improving the productivity of staple products and increasing farmers' access to larger markets. Research and development for staples in the diverse agro-ecological environments and improvements in marketing infrastructure will be priorities for public policy and resource mobilization.

However, in higher-potential areas with good access to markets, linking smallholder farmers to the emerging high-value product chains and larger retail outlets offers a considerable payoff potential provided that farmers can manage the increased emphasis on product branding, grading and standardization. Increased access to international markets (less than one-quarter of total production in Africa is exported) and local market development will increase returns given smallholders' cost advantage in the production of primary crops.<sup>20</sup>

Côte d'Ivoire, Ghana, Kenya and Zambia provide successful examples of enterprises producing and trading new products, such as tropical fruits and cut flowers.

## FAO Initiative on Soaring Food Prices

In response to the rapidly rising food prices, FAO launched (in December 2007) the Initiative on Soaring Food Prices (ISFP) with the immediate aim of rapidly increasing food production during the 2008 and 2009 agricultural seasons, mainly by supporting direct access to inputs for smallholders. FAO appealed to donors for an immediate investment of US\$1.7 billion in support of this effort.

The main objective of the ISFP is to boost food production urgently in the most affected countries so as to improve local supplies. The initiative aims to assist governments in formulating country-specific action plans for food security interventions to be implemented along the twin-track approach – boosting food production while also guaranteeing access to food for the most vulnerable population groups affected by higher and more volatile food prices.

FAO's assistance has taken the form of: (i) interventions to increase access by small-scale farmers to inputs (e.g. seeds,

fertilizer, animal feed) and improve agricultural practices (e.g. water and soil management, reduction of post-harvest losses); (ii) policy and technical support; (iii) measures addressing smallholder access to markets; and (iv) a strategic response to cushion the effects of rising food prices in the short, medium and long terms through increased and sustainable investment in agriculture.

The ISFP programme has built a strong partnership between FAO, the World Bank, the Rome-based United Nations Agencies (the International Fund for Agricultural Development and the World Food Programme) and other development partners based on complementarities and synergies among partners to respond efficiently and effectively to both the impacts of high food prices on food security at the country level and the corresponding needs for investment.

Further information on the ISFP is available at <http://www.fao.org/worldfoodsituation/isfp/en>

Understanding market opportunities, evaluating available cropping technology, identifying the binding constraints on production (e.g. feeder roads, credit and affordable inputs), and marketing represent concrete first steps in revitalizing support to smallholders. One possibility is to organize staple food production and marketing on the basis of contract farming or outgrower schemes in order to improve access to technology and markets.

Finally, research on food security issues has highlighted the strong positive interactions between cash-crop and food-crop activities

and innovative methods for resolving many of the constraints facing smallholders. Higher-value cash crops produced for international, regional or national markets often provide increased access to credit, equipment and inputs that may not be feasible with traditional food crops. Under certain conditions, they foster higher rates of food production, generate higher incomes and lead to greater capitalization at the farm level. Diversified farming systems also contribute to increased resilience of production systems and more sustainable livelihoods that are less vulnerable to shocks.



## Ensuring access to food

The people most vulnerable to food price shocks need to be protected immediately from the loss of purchasing power caused by soaring food prices. Such protection not only saves lives, it can also strengthen livelihoods and promote longer-term development. Safety nets and social protection can prevent and reduce the malnutrition that has lifelong consequences. More secure livelihoods prevent distress sales of assets, allow investments in education and health, and keep households from falling into the poverty trap.

“Safety net” is an umbrella term for various types of programmes aimed at assisting vulnerable population groups. They include food distribution programmes, cash transfer schemes, various feeding programmes and employment schemes. Many countries have one or more safety net programmes, with varying degrees of coverage. However, in the context of the current high food prices, one problem has been that not all countries have safety net programmes in place because of budgetary costs and administrative complexity.

Cash transfers include the distribution of cash or cash vouchers. They can be unconditional or conditional on participation in health, education or public works programmes. Cash transfers are appropriate where food markets work and where improved ability to purchase food is the objective of the intervention. Unrestricted cash transfers allow households to make decisions as to how to spend the cash, whether on food, essential non-food items or on investment needs. Such interventions can also foster local market development in food and other goods by providing

greater incentives to the private sector to engage in higher-volume, more-stable marketing channels. However, where food prices are increasing rapidly, the value of transfers will need to be adjusted in order to maintain purchasing power, and this can complicate fiscal planning.

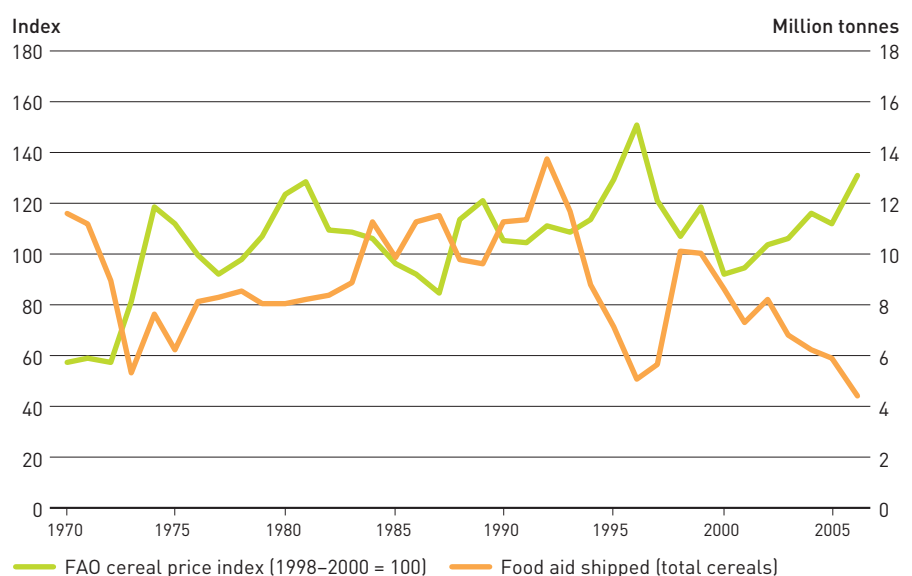
Other approaches to improving access to food, such as food stamps, are also appropriate where local food markets work and lack of access to food is the root cause of hunger. Food stamps can foster local market development, primarily of food products, and have the advantage of being more politically acceptable. They may also be more difficult to divert to “undesirable” consumption and may be self-targeting (where wealthier households are less interested in vouchers or food stamps than cash). In addition, food stamps have lower transaction costs

than direct provision of food aid. However, they have higher transaction costs than cash transfers and may restrict the ability of households to choose the most appropriate expenditure. Moreover, the selling of food stamps in the shadow economy may undermine programme goals.

Food-supply-based programmes provide food or nutritional supplements directly to individuals or households. They are most appropriate where food markets are not functioning well, so that cash transfers or other forms of income support are less effective. For example, providing cash or food vouchers in areas where food is not readily available could disrupt local markets and drive up prices. Such conditions typically require direct food aid or “food for work” programmes, which constitute the primary safety net implemented by

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### International cereal prices and food aid



Source: FAO.

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the World Food Programme. Other types of direct food distribution programmes are warranted where specific members of the household are particularly vulnerable to food insecurity or malnutrition. In these cases, school lunches or food supplementation could be necessary.

Direct food-based assistance is fundamentally different from cash or food stamps; it is most appropriate when an insufficient supply of food is the root cause of hunger. Moreover, such programmes are often politically more acceptable, perhaps because it is more difficult to divert the aid to undesirable consumption. Importantly, food aid is often donated to the receiving country, with the quantity of food aid available often reduced when world prices rise. However, the fact that food aid is often given free of charge may cause governments to ignore other more appropriate and sustainable solutions.

Given the importance of agricultural livelihoods for the poor and food-insecure, especially in sub-Saharan Africa and particularly in the context of soaring food prices, productive safety nets can also play an important role. In countries such as Ethiopia and Malawi, traditional agricultural policy instruments, including input subsidies, and innovative approaches to crop insurance have become part of social protection. In the short run, the smallholder supply response to higher price incentives may be limited by a lack of access to essential inputs, such as seeds and fertilizers. In these cases, social protection measures, including the distribution of seeds and fertilizers either directly or through a system of vouchers and "smart subsidies", may be an appropriate response. If implemented effectively, such

programmes can increase local production and the incomes of small producers and may reduce price increases in local markets, thereby contributing to improvements in the nutritional status of net food-buying families.

While the idea of a safety net in the context of high food prices may be conceptually straightforward, the formulation, design and implementation of such a programme are complex. Many possibilities exist and no specific programme design is inherently "better". A particular design should depend on local objectives and conditions, and many safety nets combine elements of the options outlined above. Most importantly, design should be driven by the needs and circumstances of a particular country or region and the views of the beneficiaries rather than by the needs and priorities of donor countries and agencies.

## Nutritional deficiencies

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As nutrition problems among children and adults are likely to worsen substantially if high food prices persist, immediate action should be taken to mitigate negative consequences. For appropriate policy and programme responses to be implemented, a clear understanding of the specific country context is essential, as the nutritional impact of coping mechanisms will vary considerably in different settings and among different population groups. Food-based interventions should aim to maintain or improve dietary diversity in order to prevent increases in micronutrient deficiencies.

Policy and programme responses include direct interventions such as micronutrient supplementation or

distribution of fortified foods for highly vulnerable groups, such as children and pregnant or lactating women. These stopgap measures should be complemented by longer-term measures to ensure that low-income households have access to affordable diversified diets. Examples include supporting small-scale food industries to produce weaning foods of good nutritional quality; supporting and promoting breastfeeding; providing adequate nutrition education messages; and conducting growth monitoring. Evidence that emerged from Bangladesh in the 1990s suggests that macroeconomic food policies that keep the price of food staples low can, in combination with other food and nutrition interventions, help reduce the percentage of underweight children.<sup>21</sup> Considering the importance of women's status for child nutrition, effective measures should aim at eradicating gender discrimination and reducing power inequalities between women and men.



# Concluding remarks

## Addressing the threats

The dramatic rise in global food prices poses a threat to food and nutrition security. It also creates many economic, social, political and environmental challenges with knock-on effects for both development and humanitarian activities. This food crisis endangers millions of the world's most vulnerable people and threatens to reverse critical gains made towards reducing poverty and hunger in the past decade. Already before the rapid

rise in food prices, close to 850 million people worldwide were estimated to be undernourished. The crisis may drive millions more in both rural and urban areas deeper into poverty and hunger.

A crisis of this nature and magnitude requires an urgent comprehensive, coherent and coordinated global response to ensure food and nutrition security, especially in developing countries, in a sustainable manner. This response must address both immediate and longer-term needs and target both

the urban and rural poor, especially smallholder rural farmers in affected countries (whose capacities to benefit from high food prices are severely constrained by lack of inputs, investment, infrastructure and market access).

## A call for urgent coordinated action

On 28 April 2008, the United Nations Secretary-General established the High-Level Task Force (HLTF) on the Global Food Crisis under his chairmanship. The HLTF brings

## Follow-up to the FAO High-Level Conference

When world leaders met in Rome in early June 2008 for the High-Level Conference (HLC) on World Food Security, they reconfirmed that it is "unacceptable that 862 million people are still undernourished in the world today" and urged the international community "to take immediate, urgent and coordinated action to combat the negative impacts of soaring food prices".

It was recognized that immediate life- and livelihood-saving relief assistance is needed, combined with an urgent need to help food-insecure countries expand agriculture and food production. The HLC produced a range of recommendations.

### Immediate and short term

Measures should focus on:

- responding urgently to requests for assistance to address hunger and malnutrition food assistance emergencies through expanded relief and safety net programmes;
- providing budget and/or balance of payments support, reviewing debt servicing and simplifying the eligibility procedures of existing financial

mechanisms to support agriculture and environment;

- increasing smallholder access to appropriate seeds, fertilizers, animal feed, technical assistance and other inputs;
- improving market infrastructure;
- ensuring that food, agricultural trade and overall trade policies are conducive to fostering food security for all through the successful and urgent completion of the Doha Round of trade negotiations and minimized use of restrictive measures that could increase volatility of international prices.

### Medium and long term

The current crisis has highlighted the fragility of the world's food systems and their vulnerability to shocks. While there is an urgent need to address the immediate consequences of soaring food prices, it is also vital to combine medium- and long-term measures, including:

- embracing a people-centred policy framework supportive of the poor in rural, peri-urban and urban areas and

people's livelihoods in developing countries, and increasing investment in agriculture;

- maintaining biodiversity and increasing the resilience of food production systems to challenges posed by climate change;
- stepping up investment in science and technology for food and agriculture and increasing cooperation on researching, developing, applying, transferring and disseminating improved technologies and policy approaches;
- establishing governance and policy environments that will facilitate investment in improved agricultural technologies;
- continuing efforts to liberalize international trade in agriculture by reducing trade barriers and market-distorting policies;
- addressing the challenges and opportunities posed by biofuels, in view of the world's food security, energy and sustainable development needs.

# Towards the Summit commitments

together heads of many of the United Nations specialized agencies, funds and programmes, Bretton Woods institutions and relevant parts of the United Nations Secretariat. It has produced a Comprehensive Framework for Action (CFA) to guide global and local actors, both institutions and governments, and it is designed to catalyse urgent and immediate action. FAO has played a key role in the HLTF and contributed to the overall strategic and technical content of the CFA and will play a major role in its implementation.

The CFA identifies priority actions for improving global food security and furthering poverty reduction in the context of the present food crisis. Consistent with the Declaration agreed by world leaders at the FAO High-Level Conference on World Food Security in June 2008 (see box) and with key messages in this report, the CFA highlights two general sets of actions in support of a comprehensive response to the global food crisis. The first set aims to *meet the immediate needs of food-insecure populations*, while the

second set aims to *build resilience and contribute to longer-term global food and nutrition security*. Both require urgent attention, and both would benefit from strengthened coordination, assessments, monitoring, and surveillance systems.

## **Investment in agriculture is essential**

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FAO strongly believes that renewed agricultural investment that is focused on smallholder farmers and rural development would turn agriculture into a vibrant economic sector with positive effects on poverty reduction. In order to succeed, increased agricultural productivity must be accompanied by enhanced investment in local and regional market development and by comprehensive adjustments to distorting trade practices. At the same time, sustainable models of agricultural production must be adopted in order to ensure that new solutions are consistent with long-term environmental needs.

## **Rising to the challenge**

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Leadership must play a critical role in any global response. National governments should take the lead, but they require redoubled support and cooperation from the private sector, civil society, the humanitarian community and the international system. The financial implications related to the crisis and the response are enormous, and they require substantial political and financial commitments from all stakeholders. Critical needs vastly exceed the response witnessed thus far. Increased allocations should be additional to current funding levels and not divert resources away from other critical social sectors necessary to achieving the MDGs, such as education and health.

These actions and outcomes can only be achieved through partnership at all levels. FAO will continue to provide leadership and coordination in this respect and to assist national governments and affected communities in addressing what constitutes a truly global challenge.