

Soaring food prices – threat or opportunity?

by Jacques Diouf

Director-General of the Food and Agriculture Organization of the United Nations (FAO)

Soaring food prices in recent months are dramatically worsening the living conditions of the “bottom billion” of poor people who live on a dollar a day or less. These people typically spend around 60% of their incomes on food, and rapid increases in prices force them to make difficult choices between consumption of more nutritious foods and expenditures on other necessities. For instance, in January 2008, the FAO Food Price Index jumped by 47% from one year ago, led by increases in cereals (62%), dairy (69%) and vegetable oils (85%).

FAO therefore launched at a press conference held on 17 December of last year the initiative on soaring food prices with 17 millions US dollars to assist poor farmers get access to inputs at affordable prices. Development partners were also requested to contribute with a view to multiply by 100 this amount.

But while it is undeniable that higher food prices exacerbate food insecurity and create social tensions, at the same time there is a danger that the short-term emergency aspects of the situation may overshadow the debate on how to turn the threat into an opportunity for re-launching agriculture, especially in the developing countries.

The major challenge we are facing if we are to come close to achieving the first of the Millennium Development Goals – to reduce by half extreme poverty and hunger in the world by 2015 - is to boost agriculture in developing countries in a sustainable way. We must produce more food where it is urgently needed to contain the impacts of soaring prices on poor consumers, and simultaneously boost productivity and expand production to create more income and employment opportunities for the rural poor.

From economics fundamentals, high prices constitute an incentive for producers to increase their production and earn income. But based on past experience, low prices were not always the main constraint to increase production. Supply response by farmers, especially smallholders, is bound to be limited in the face of many constraints. Roads, infrastructure, communication facilities, access to technology and extension services, agricultural research and well functioning marketing and credit systems are often lacking. For example, irrigated land as a percentage of total cropland is more than three times higher in high income countries than in sub-Saharan Africa, where most of agriculture is rainfed. Developing countries in general spend less than 1% of agricultural GDP on agricultural research, compared to more than 5% in developed countries. The message is clear: high commodity prices cannot substitute for badly needed public goods and services that are essential for agricultural production and productivity gains.

To ensure that small farmers and rural households benefit from higher food prices, we need to create a favourable policy environment that relaxes the constraints facing the private sector, farmers and traders. Investments by the private sector in agriculture and related sectors would be forthcoming if appropriate investments in public goods are put in place. The declining trends in public resources for agriculture and rural development, should be reversed – the share of bilateral and multilateral aid going to agriculture declined steadily from 1980 to 2004, leading to an absolute decline in agricultural assistance.

Also, we have to ensure that small holder farmers have proper access to production factors. Land and water resources and essential inputs such as seeds and fertilisers will enable them to increase their supply response to higher prices, boosting their incomes, improving their livelihoods, and ultimately benefiting consumers as well.

When food prices soared during the world food crisis in the 1970s, many Asian governments chose to invest substantial resources in irrigation and agricultural research, setting the stage for rapid growth in productivity that allowed millions to escape poverty and hunger. A similar response is urgently needed today – particularly in sub-Saharan Africa.

The combination of threats and opportunities presented by high agricultural commodity prices calls for a twin-track approach: policies and programmes to protect the livelihoods of millions of poor people adversely affected by this situation, while creating the favourable environment to strengthen the potential of farmers to take advantage of the opportunities offered.

The time for re-launching agriculture is now and the international community should not miss the opportunity. The High-Level Conference on World Food Security: the Challenges of Climate Change and Bioenergy, convened by FAO from 3 to 5 June 2008, shall give to Heads of State and Government of the world the forum to address this grave situation.
