



Don't forget the food crisis: New policy directions needed

The neglect of agriculture

With the attention of the international community focused on the mounting global financial crisis, there is the danger that the food crisis that emerged in 2008 is being sidelined. Yet, that crisis continues to pose a global humanitarian and development challenge even as food prices begin to fall back.¹ Between 109 and 126 million people may have fallen below the \$1 per day poverty line since 2006 due to the increase in food prices.² The vulnerable populations in South Asia and Sub-Saharan Africa (SSA) are affected most. Other things being equal, the incidence of extreme poverty in SSA may have risen by almost 8 percentage points, implying that the recent food price increases have more than offset the poverty reduction achieved before the crisis, between 1990 and 2004.

The crisis has multiple causes, including longstanding policy failures with respect to the agricultural sector in many developing countries. But one of the clear challenges emerging from this crisis is the need for scaling-up investment in order to meet the increasing demand for foodstuffs worldwide.

Ironically, part of the problem is that prices for many agricultural products fell persistently from the late 1980s until 2002, providing weak incentives for agricultural investment. This trend has been explained by a perverse mixture of misguided policy interventions in both developed and developing countries, along with poorly designed liberalization measures. Although food prices have increased since 2002, in both nominal and real terms, after adjusting for inflation, they are still well below the levels of a quarter century ago. But weak price incentives are only part of the story.

Government support has traditionally played a prominent role in guaranteeing food security in many countries. Such support in developing countries has weakened in recent decades as part of broader market reforms. This is in contrast to income support to farmers in developed countries which has increased from about \$299 billion at the end of the eighties to almost \$365 billion in 2007.

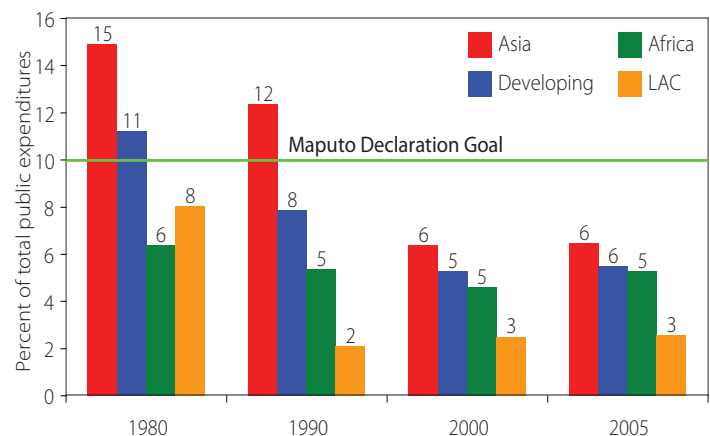
At the same time, farmers in developing countries have also suffered from a relative neglect of public investment in rural infrastructure, including roads, irrigation systems, access to water and storage capacity and lack of institutional support. Adequate rural infrastructure is essential to “crowd in” private investment in agriculture. In 2003, African governments committed themselves to raise the share of spending in agriculture to 10 per cent by 2008 in support of the Comprehensive African Agriculture Development Programme (the Maputo Declaration

Goal). However, the commitment is unlikely to be met and does not exclusively address food production.

Government spending on agriculture in developing countries decreased, on average, from over 11 per cent of total outlays in 1980 to only 5.5 per cent in 2005 (Figure 1), while agricultural investment has been particularly low (and declining) as a share of total public expenditures in Sub-Saharan Africa and Latin America. Even as a percentage of agricultural output, investment spending has decreased from over 10 per cent in 1980 to an average of 8.5 per cent in the 1990s and 2000s.

The picture looks better for agricultural R&D spending by developing countries, which almost doubled as a share of GDP between 1981 and 2000, surpassing developed countries. However, nearly all the increase was in China and India, whereas spending declined in Latin America and Sub-Saharan Africa.

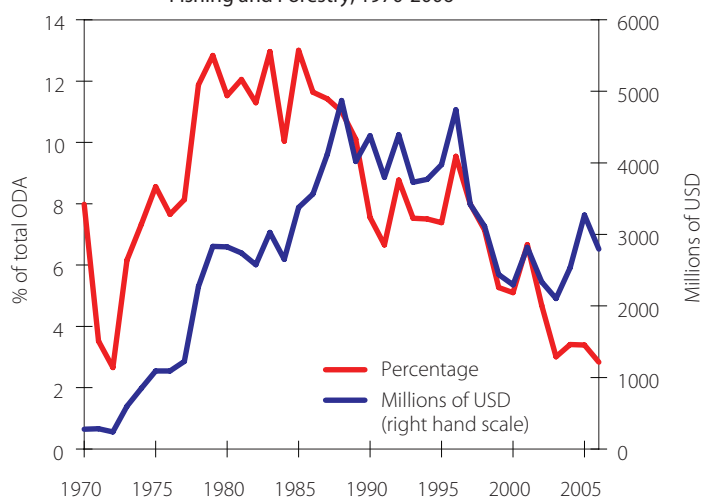
Figure 1: Public agricultural expenditure in developing countries, 1980-2005



Source: Based on data in Fan, Shenggen and Anuja Saurkar, "Tracking Agricultural Spending for Agricultural Growth and Poverty Reduction in Africa," Regional Strategic Analysis and Knowledge Support System, Issue Brief 2008. <http://www.resakss.org/publications/Expenditure%20trends%20brief.pdf>

Donors have also neglected agriculture. The share of total official development assistance (ODA) for agriculture declined from 13 per cent in the early 1980s to 2.9 per cent in 2005-06. In absolute terms, aid for agriculture dropped from \$10.3 billion in 1980 to \$2.4 billion in 2006 (in constant 2000 dollars). In addition, ODA allocated to other productive activities and economic infrastructure, which can have positive externalities for agriculture, also suffered from significant drops in international support during the same period.

Figure 2: Official Development Assistance for Agriculture, Fishing and Forestry, 1970-2006



Source: OECD.Stat (<http://stats.oecd.org/wbos/Index.aspx?usercontext=sourceoecd>).

The upshot of weakening investment and agricultural support measures in developing countries is that yield growth in major food crops has stalled (Table), falling short of growth in food demand.

Table: World Crop Yields 1962-2007

Average crop yield growth rates					
	1962-69	1970-79	1980-89	1990-99	2000-07
Maize	2.9	3.6	1.3	2.1	1.8
Rice (paddy)	2.4	1.7	2.7	1.2	0.8
Wheat	3.7	3.0	2.6	1.6	0.2

Source: Calculated from data in FAOSTats (<http://faostat.fao.org/default.aspx>).

Boosting agricultural investment

Public and private resources must be mobilized to compensate for the massive underinvestment suffered by the agricultural sector over the past two decades. In order to return to the levels of three decades ago, government spending in agriculture would need to double or triple in most developing countries.

The United Nations, through a High-Level Task Force on the Food Crisis, has proposed a Common Framework of Action (CFA)³ as a comprehensive and broad strategy to approach this deep-rooted and multifaceted crisis. The challenge now is to integrate this framework for action into broader national development strategies. The CFA estimates that an additional \$25 to \$40 billion will have to be invested every year for food and nutrition security, social protection, agricultural development and better functioning of food markets. Approximately one third of the additional resources would be needed for immediate food assistance and short-term budgetary and balance-of-payments support, and two thirds for investments in rural infrastructure, education, clean water and agricultural research. The largest sums need to be invested in South Asia, followed

by Latin America, although on a per capita basis, Africa will require the greatest investment push.

The international community must do its part by increasing aid allocated to long-term investments in agriculture. Many important commitments have already been made during events in 2008, such as the G8 commitment of over US\$10 billion to address both short and long-term needs, the World Bank's new \$1.2 billion Global Food Response Program to speed assistance to the neediest countries and other announcements made in the World Food Summit in Rome and at the UN High Level Event on the MDGs.

However, these still fall short of bridging the gap identified in the CFA. In order to regain lost ground in reducing rural poverty, initial support and reform programmes should be targeted at small producers of food, especially in sub-Saharan Africa, since they are the most vulnerable and least productive group. In Asia, it has been estimated that increasing agricultural productivity to feasible levels could lift about 220 million people out of poverty—a third of the region's mostly rural poor.⁴

In view of the present global financial crisis, it is more important than ever to strengthen the development finance architecture, not only to limit the negative effects of the crises and to enable countries to respond effectively, but also to ensure that the internationally agreed development goals can be met without diverting either external or domestic resources away from ensuring food security. The key challenge is to secure adequate resources for the required long-term investments in agriculture and rural development. This will require a well-coordinated effort by the international community that needs to be sustained over an extended period of time. ■

Notes

1 Although most food prices have decreased since June 2008, the average price of grains is expected to be about 40 per cent higher in 2008 than in 2007, and to decrease slightly in 2009.

2 Based on DESA estimates. Although the World Bank has recently recalculated the number of poor people based on a new international poverty line of \$1.25 a day, this new calculation will probably not significantly change the incremental number of people affected by the crisis.

3 See: <http://www.un.org/issues/food/taskforce/Documentation/FINAL%20CFA%20July%202008.pdf>

4 ESCAP, Economic and Social Survey of Asia and the Pacific 2008, ESCAP, Bangkok 2008.

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