

High Level Regional Consultation on Policies to Respond to High Food Prices in Asia and the Pacific Region

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Opening Remarks by

Ganesh Thapa¹

Your Excellencies,
Distinguished Participants,
Ladies and Gentlemen,

It is my great pleasure to be invited to this consultation and to make a few observations on behalf of the International Fund for Agricultural Development (IFAD) before this august gathering. We are meeting here today to share experiences and lessons from the recent past in dealing with the effects of high food prices and to identify policy options to prevent the re-emergence of another food crisis in our region.

The food price crisis of 2007 and 2008 caused widespread food shortages and food and nutrition insecurity, particularly among poor children, women and men. Our region was hit hard by this crisis, which is home to the largest number of poor and undernourished people in the world. The recent increases in global prices of maize, wheat and soybean have drawn our attention to the possibility of yet another food price crisis.

Several studies indicate that food prices will remain high and volatile in the future. In this context, an interesting question that needs to be addressed is whether rising food prices are a threat to food security or an opportunity for smallholder farmers.

It is well-known that rising food prices have played an important role in the acceleration of inflation across Asia and the Pacific Region in recent years. Not only is food price inflation the most regressive of all taxes, it also leads to lower growth and accentuation of income inequality.

However, a study by ADB (2008), which takes supply responses to higher food prices into account, shows that the negative effects of food price inflation (e.g. higher incidence of poverty and increase in income inequality) are dampened by the positive supply response in rural areas. This study shows that households dependent on agriculture gain significantly as a result of food price increases. In such a situation, not only does poverty decline but

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also income inequality, more than compensating for the unfavourable effects in urban areas. Another study by FAO (2008) also showed that the welfare of agricultural households in Bangladesh and Vietnam, who derive more than 75 per cent of their incomes from farming improved. World Bank estimates (2011) show that 24 million net food producers were able to escape extreme poverty as they benefitted from high food prices, although more people (68 million) fell below the \$1.25 poverty line, who were net consumers. In Thailand, a food exporting country the picture was very different where there were 3 million rice-surplus farmers compared to 2.5 million rice-deficit farmers among the poor households in 2007. These studies show that opportunities exist for farmers including smallholders to benefit from high food prices and escape out of poverty.

Since agriculture in Asia and the Pacific region is dominated by small farmers, it crucial that the benefits of more remunerative producer prices accrue in equal measure to smallholders. In many countries of our region, small farmers cannot take advantage of higher food prices by expanding production because they have difficulties in accessing services and credit. Similarly, when new technologies require higher capital inputs or mechanization, they may be at a disadvantage unless they are helped in reducing their transaction costs to access inputs, credit and marketing facilities. In most cases, their disadvantage is due to market failures, institutional gaps and policy distortions. If we eliminate such biases against smallholders, they can enhance their competitiveness.

A World Bank study (2007) conducted in India shows that additional investments in market facilities are pro-poor as sales of the poorer farmers increase more than proportionately to those of wealthy farmers. In other words, while rich farmers capture the benefits of existing facilities better than small farmers, the marginal benefit from an improvement of market facilities is substantially greater for smallholders.

Rising per capita incomes, dietary changes with significantly higher shares of meat and dairy products, and developing food markets have resulted in global demand outpacing domestic production capacity. Therefore, long-term growth in agricultural productivity is vital to ensure food security. IFAD-sponsored research (2011) shows that there is a significant yield response to higher food prices in a panel of 10 Asian countries. For example, a 1% increase in price results in 0.25-0.31% of per hectare yield increase with 1 year lag for maize, wheat and rice. Also marketed surplus increases more than proportionately to increases in outputs.

How can we help small farmers raise productivity and benefit from expanding markets? Although remunerative prices are important, we should also not overlook the much emphasized role of irrigation, fertiliser and modern varieties in further augmenting supply-especially among smallholders. In some cases, the private sector has adequate incentives to provide these services as demonstrated by their involvement in promoting contract farming

and supermarkets. However, the governments have to play an active role in the delivery of inputs and services to small farmers. Better storage facilities and producers' associations have the potential of strengthening the bargaining power of smallholders. Support will also be needed to enable smallholders to face emerging challenges related to climate change and market volatility.

Although the challenges are many, our region can benefit from a range of promising opportunities. The private sector is making significant investments to develop new agri-food industry and market facilities that provide important linkages between small producers and markets. There is also a high level of political commitment among national governments to making long-term investments in agriculture. In fact, in many countries of the region, public investment in agriculture has increased in recent years and bilateral and regional trade has expanded.

Although challenges related to food security have been discussed at several global and regional forums, the focus has generally been on making political commitments to address food security issues. I believe what is different about this Consultation is that it provides a unique opportunity to focus on concrete policy measures to prevent future food crises and to jointly agree on next steps at national and regional levels in enhancing food security.

IFAD is happy to have the opportunity to collaborate with ADB, FAO and WFP in co-organizing this important regional event. Since 2010, we already have a regional partnership framework among us to work with countries of the region through coordinated food security engagements that take into account their specific priorities and constraints. I hope that we can build on our past experience of working together and identify concrete areas for collaboration with governments, civil society and the private sector.

I would like to welcome all the distinguished participants and wish for a very successful Forum.

Thank you very much.