



High food prices – improving the performance of the agricultural sector

The causes of the food price crisis in 2007/08 were a combination of high energy prices, crop failure, the financial crisis and national policy errors causing a general price panic. Food price rises may not reflect an underlying shortage in supply but a lack of short- and long-term support to the farming sector in many countries suffering from food insecurity.

Government expenditures on agriculture in developing countries

	2000 international dollars, billions				Percentage of agricultural GDP			
	1980	1990	2000	2005	1980	1990	2000	2005
North Africa	4.35	4.20	6.29	5.20	14.76	8.71	10.97	7.96
SSA	3.00	3.64	4.24	8.67	4.09	3.73	3.67	6.42
ASIA	71.14	103.00	127.46	201.63	9.57	8.63	7.87	10.22
LAC	30.31	12.19	18.93	25.46	14.18	5.77	9.12	9.40
TOTAL	108.80	123.03	156.93	240.96	10.27	7.93	7.84	9.86

Source: ReSAKKS (IFPRI) 2009, Public spending for agriculture in Africa, Working Paper No 28

Traditional agricultural producer policies have focused on encouraging domestic production through input subsidies, provision of public goods such as research and training, market interventions to stabilise prices and often free trade interventions. As agricultural producers in food insecure, primary rural economies make up the majority of a country's population, soaring food prices may also indicate a failure of a combination of economic policies to fulfil public policy goals such as achieving economic growth, stability, redistribution of income, full employment of production factors, etc.

In theory, high prices provide an incentive for producers with capacity to spare and resources to purchase necessary inputs

to eventually increase production. Most small-scale farmers in developing countries have been unable to capitalise on price rises due to a lack of access to markets and key production inputs such as seed, fertilizer, know-how, irrigation facilities, land and credit etc.

Regional annual rate of growth of agricultural capital stock

Region	1975-2007 annual rate of growth of...		
	...capital stock in agriculture	...population active in agriculture	...capital stock/person active in agriculture
Latin America & Caribbean	1.29%	-0.09%	1.37%
Near East & North Africa	1.39%	0.86%	0.52%
Sub-Saharan Africa	1.57%	2.03%	-0.46%
East & Southeast Asia	1.75%	1.01%	0.74%
South Asia	1.15%	1.43%	-0.27%

Source: ReSAKKS (IFPRI) 2009

Several FAO projects have been implemented as a response to the food price crisis to provide timely access to inputs for relatively small numbers of farmers. These have had some degree of success in the short term. However, the longer-term impact of these ‘soaring food price’ projects is likely to be limited by sustainability issues and by the enormous resources required to give all farmers the same level of access to inputs as provided to the fortunate few under the projects.

Governments also have responded to the recent food price crisis by re-visiting policies that largely failed in the past such as state-owned marketing boards, government storage, price stabilisation activities and storing perishable food items instead of allocating funds for the purchase of food when needed. This calls for a debate on the effectiveness of state interventions and current economic policies, as well as on agricultural producer policies.



Excessive public storage under inappropriate conditions, Zambia 2010

In the longer term, developing countries may decide to pursue policies that favour sustained increases in smallholder food crop production to protect themselves from future price volatility. These will include managed programmes of sustainable production intensification for smallholders, promotion of private investment in agriculture, promotion of an enabling business environment, equitable access to natural resources, investment in applied and adaptive research and a reappraisal of policies necessary to ensure adequate access not only to rural finance but also to government budgets. The food insecure population also needs increased access to public support i.e. finance, education (to achieve higher returns to labour, land and capital), health and basic infrastructure etc.

Table: Composition of public expenditures

		Agriculture ^a	Education	Health	T&C	Social Security	Defense	Other ^b
Sub Saharan Africa	1980	7.1	14.4	4.9	11	2.9	19.7	40.1
	1990	5.5	14.5	4.5	4.5	2.5	17.1	51.5
	2000	3.8	14.1	6.7	4.7	5	8.8	56.9
	2005	6.3	15.4	8.1	5.8	2.8	6.5	55.1
Africa	1980	6.4	12.2	3.7	6.3	5.7	14.6	51
	1990	5.4	15.1	3.9	4.1	7.1	13.7	50.7
	2000	4.7	17	6.8	3.9	6.1	9.4	52
	2005	5	17.9	6.5	3.7	5.6	8.1	53.1
Asia	1980	14.9	13.8	5.3	11.7	1.9	17.6	34.8
	1990	12.3	17.4	4.3	5.2	2.4	12.9	45.5
	2000	6.3	16.9	4.3	3.8	6.4	8.3	54
	2005	6.5	17.9	5.4	4.5	8.7	7.9	49.1
Latin America	1980	7.7	10.4	5.8	6.8	23.6	6.1	39.5
	1990	2.1	7.9	6.1	2.6	21.8	5	54.4
	2000	2.5	14.8	7.6	2.6	36.4	4.6	31.6
	2005	2.5	14.3	8.4	2.4	36.6	3.8	32

Source: ReSAKKS (IFPRI) 2009

There is a wealth of policy options available to improve the performance of the agricultural sector and to reduce the incidence of food insecurity. On a macro-economic level, such policy options include:

- re-distribution of government budgets towards food insecure populations including poor agricultural producers;
- re-visiting the role of government in allocating scarce resources to ensure efficient usage;
- analysis and reformulation of general economic policy goals such as “fair” income re-distribution, growth, full employment, stability, sustainable public debts and any other main policy goals as stated in national policies.

Agricultural policy options to support sustainable intensification of crop production could include:

- seed sector development;
- farmer education and extension;
- incentive schemes for adoption of sustainable practices;
- schemes to value ecosystem services and penalise unsustainable practices;
- integrated approaches to soil fertility management;
- investment in irrigation and rural infrastructure for processing, storage and transport;
- promotion of private sector input delivery and removal of policy constraints that act as a disincentive for this;
- formulation of policies that promote sustainable rural financial intermediation.

All the above measures to promote production need to be underpinned by support for efficient markets, value chain development and the development of producer organisations, where appropriate.

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