



POVNET AT WORK

RESPONDING TO FOOD INSECURITY PRO-POOR GROWTH AND AGRICULTURE

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Soaring food prices in early 2008 have drawn the international community's attention to the importance of a productive and dynamic agricultural sector. In this context, the *World Development Report 2008* suddenly gained in importance and a number of conferences gave rise to an array of short and long-term action plans, policy solutions and ideas on how to deal with the issue of higher food prices and food insecurity. Numerous publications elucidated the demand side (demographics, income, and poverty) and the supply side (production and productivity) of high food prices, and analysed its impact on the economies of developing countries and poor people. While there is general agreement that investment in the agricultural sector is key to a mid- to long-term response, the question of "how" and "what" differ substantially. Opportunities and difficulties to ensuring access to food which is affordable, nutritious and in quantities sufficient for all have been known for decades: typical issues range from technology and finance to institutions and governance. This information sheet shows the pertinence of the DAC policy messages contained in *Pro-Poor Growth: Agriculture* (OECD, 2006). This publication was designed to shape the medium- and long-term response to higher and volatile food prices and argues that innovative ways of working together are needed to shape a sustainable response.

Food security is a global issue

The peak of food prices in early 2008 showed that the global food security system is fragile, exposed to shocks that have serious impacts on the poor, and that it substantially sets back development results, including those for MDG 1 on poverty and hunger. High food prices on the global market have put pressure on the balance of payments of many developing countries and made food unaffordable for many of the urban poor. Farmers connected to the world market benefited from higher food prices, but also faced much higher costs, e.g. for fertilizers. Smallholder farmers in developing countries, however, did not benefit from high price levels mainly due to high fuel prices and a lack of access to markets. Food prices have come down from their 2008 peaks but are expected to remain volatile. At the same time, affordability is still a pressing issue as incomes fall and balance of payments come under pressure from the global recession. Food insecurity is currently - and will remain - a critical global issue and this fact should not be forgotten as attention turns to the impacts of the global recession.

The crisis has certainly generated short-term pressure on poor people and political unrest, but it has also underlined the long-term fragility of the global food security system. The international response partially reflects this. While the short-term response contained mainly social protection mechanisms, the long-term response to stabilise the global food security system remains urgent and targets bottlenecks of food demand and supply at both global and national levels.

In countries with agriculture-based economies (most developing countries), food demand and supply considerations are addressed through poverty reduction and increased agricultural productivity respectively. As confirmed by the WDR 2008, agriculture remains a major employer and a critical source of national income and export earnings in most poor countries. It is widely acknowledged that the increase in agricultural productivity as a means to poverty reduction goes well beyond its impact on rural incomes. Agricultural growth, particularly through increased productivity, reduces poverty by lowering and stabilising food prices, improving employment and incomes for the rural poor, and increases demand for consumer goods and services. Additionally, it stimulates growth in non-farm economies. A vibrant agricultural sector in poor countries is therefore key to tackling both the demand and the supply side of the response to volatile food prices.

In spite of this recognition, developing countries' public investment in agriculture has reached its lowest level ever. The public sector provision of services over the last 20 years has concentrated on technical extension services and less on linkages to demand and markets. This type of service provision was recognised as being inefficient and led to a decrease in new investments in this field. Over the last decade and in the context of an increasingly globalised world, market linkages have become increasingly complex while innovative partnerships to tackle the support of the agricultural system have been lacking. Also, the role and the task of the state are being re-considered, given that agricultural activities are mostly in the private sector. The share of ODA invested in agriculture dropped from 21% in 1985 to as low as 5.1% in 2004, recovered slightly to 6.9% in 2007, and contributed to the performance decline in the agriculture sector in most developing countries. But the low volume of ODA for agriculture also reveals the lack of entry points for effective public investment.

Agriculture is essentially a private sector activity, characterised to a large extent by smallholder farmers, many in the informal economy. The private sector did not fill the gap left by dwindling public investment in agriculture. Private investment is generally difficult and unattractive for a host of well-known reasons, including the predictability of returns on investment, climatic challenges, tenure and security, the price and availability of fertilizers and market access.

POVNET principles for a new agenda for donor investment in Agriculture and Pro-Poor Growth

In 2006 the DAC, through its Network on Poverty Reduction (POVNET), published policy guidance on agriculture and pro-poor growth, recognising that agriculture had become a neglected sector that urgently required renewed support. This policy guidance developed four principles and three priority areas to be reflected in a new donor agenda. The present information sheet discusses the relevance of this policy guidance in the context of high and volatile food prices, suggesting new priorities on how to implement support for agriculture.

The potential of the agricultural sector can be geared up, if not re-launched as a truly private economy, with an appropriate blend of policies, regulatory frameworks and investments. The following four principles are essential in defining donors' attitudes on how to promote the agriculture agenda and how proposed investment and policy options should be articulated:

a) Adapt approaches to diverse contexts

Support for the agricultural sector has to be as diverse as the characteristics of the sector itself. It has the really difficult task of combining i) the priorities of a multi-faceted rural society, with ii) those of a diverse private sector development, and iii) various roles and responsibilities of multiple actors, in order to iv) adapt these to the prevailing agro-ecological environments. If agriculture is to assume its role as a major employer of essentially poor rural people and contribute to pro-poor economic growth, policies need to address the considerable variation in assets and access to markets of the rural population. The typology of five rural worlds, even though not mutually exclusive, helps to understand which policies reach which parts of the rural population in different economic contexts.

Figure 1: The Five "Rural Worlds" in the context of domestic and regional/international markets (DAC/POVNET 2006)



One long-term objective is of course the promotion of an efficient agricultural economy. Policies recognising all five rural worlds can therefore contribute to an agricultural production that matches the demand for food to a stable food market that is accessible to the poor, and consequently contributes to poverty reduction. While the development of big irrigation plans alone can result in a boost of production and productivity of a particular crop, they do not necessarily benefit the vast majority of the poor farmers who are smallholder producers, unable to purchase the produce. On the other hand, smallholder staple crops might not necessarily respond to the changing demand for food in urban centres if the market is not well organised. Therefore, if poverty reduction and agricultural production are to be combined, the immediate entry point in the current situation remains that of increasing the productivity of smallholder farmers. This will increase labour effectiveness, expand food production, improve livelihoods, and foster a transition towards a truly rural economy.

While demand and supply of food is increasingly globalised, smallholder food production in developing countries is essentially local and to some extent regional. Due to local consumption specificities, staple cereals in developing countries are mostly outside the global market and enjoy limited access to trade and transformation. The majority of those farmers are therefore disconnected from world markets and will not benefit directly from higher prices at the international level. However, local price developments respond positively to the global rise in food prices – despite a slight increase in production costs – considering the minimum inputs. It is therefore important that regional and international markets for smallholder crops are better organised and that the produce can access national and regional markets.

In developing countries, there is often a mismatch between the demand of the urban population, with rapidly changing consumption patterns, and the supply of traditional produce and products of smallholder farmers. This results in a decreasing demand for local production and costly imports on the global market. There is considerable potential for better matching agricultural production which respects the situation of rural small-holder farmers, with the demands of an increasingly disconnected urbanised society. This can be achieved by promoting the transformation of smallholder crops and by stimulating the domestic market.

b) Build institutions and empower stakeholders

To empower farmers and make private sector services emerge, the role of governments (and donors) has to be demystified and clarified. Public responsibility has to be clarified so that agricultural policies can enable efficient structures to emerge. Governments are not responsible for production, but for ensuring an environment as conducive as possible to farmers, and regulation to maximise the public good. If agricultural production is considered a private sector development with a national interest, governments have to play their role correctly: that of a facilitator for stakeholders and regulator of markets, as well as promoting public research and ensuring those (extension) services that the private

sector cannot provide efficiently. Its responsibilities also include the provision of skills and capacity development, so as to ensure that farming becomes a profession rather than an inevitability. There is an opportunity now to invest in proper institutions and stakeholders, especially through public-private partnerships.

To develop policies as close to reality as possible, farmers need to become active stakeholders. Promoting farmers' organisations and strengthening their technical and organisational capabilities will enable farmers to play an active role in shaping demand-driven policy-making processes. Development partners can play a key role in supporting farmer and consumer associations by advocating that their voice be heard as representatives of civil society in the development, implementation and monitoring of policies.

c) Support pro-poor international actions

Globalisation has brought with it advantages in linking global markets, but it has also increased the responsibilities of governments in regulating its linkages and complexities. Countries' actions inevitably have implications for others, which makes it more crucial than ever that changes initiated today are sustainable across national borders and provide long-term solutions, rather than crises being managed purely at a national level. All nations should be able to participate in and benefit from the global market. On the other hand, the weakest have to be protected from bearing all the risks when the global market fails. It is therefore important that the international community re-defines global food security, and establishes a global trading system and an environment conducive to investment that allows a competitive sharing of benefits and risks.

High-level meetings about global trade negotiations, scaling-up of aid and increasing aid effectiveness have received considerable attention recently and often resulted in very complex outcomes. Concepts like empowering the poor and pro-poor growth have hardly been reflected in these outcomes. With their considerable impact potential they deserve greater attention and need to build strong political and stakeholder support and be made operational.

Recent frameworks, such as the Comprehensive Africa Agriculture Development Programme (CAADP) which applies on a continent-wide sector level, or the Comprehensive Framework for Action (CFA), a global response to the food crises, are excellent initiatives for developing joint responses. Whether regional or global initiatives, they give guidance at an international level, but they need to be adapted to local realities and needs. They offer priority pillars of the sector at a continent level, resulting in a range of mechanisms to define policies. The resulting national plans, however, need to reflect local needs and translate regional priorities into actions at local level.

d) Foster country-led partnerships

Agriculture was often neglected in first generation PRSPs, largely due to an inadequate understanding of the agricultural and rural dimensions of poverty. Second generation PRSPs have often made up and integrated a growth component (*e.g.* Mali) or developed rural development strategies as add-ons (*e.g.* Niger). This shows that developing countries have indeed recognised the important role of agriculture and are moving towards implementation of the Maputo Declaration, in which African governments committed to raise allocations to their agriculture sector to 10% of their budget. A good mix of bottom-up needs with top-down international offers has to be found at national level, truly respecting the promotion of country ownership.

Priorities for action

Increased levels of agricultural production and productivity cannot be decreed. Support for agriculture will be more effective and better adapted if it is provided by means of indirect incentives. They have to be conceived, sequenced and differentiated for the poor, slanted in favour of producer organisations, to promote better functioning markets and a better consideration of risks. POVNET's priorities for action address the better functioning of markets (*e.g.* infrastructure needs); regulation and provision of services (*e.g.* training) and production inputs (*e.g.* access to seeds, fertilizers, credit); and provide risk management mechanisms (*e.g.* insurance and social protection).

As a first step, however, policy analysis has led governments to commit to remove well-known stumbling blocks such as fertilizer monopolies or high taxes on production inputs. Governments are also recognising their real role and backing away from making farmers the servants of government.

a) Enhancing agricultural sector productivity and improved market opportunities

In many agriculture-based countries, the bottlenecks to investment in agricultural productivity are i) access to knowledge and technology (training, research, extension); ii) secure and equitable access to production inputs (fertilizer, seed, credit, land, labour); and iii) access to markets and information. Responses have to be adapted to national agro-ecologies and the rural worlds and respect the role of the public and private sector, which can vary even within a country.

National and regional markets that stimulate growth and productivity and enhance private investment need to be developed. The promotion of local consumption has also shown to have positive effects on the transformation of agricultural products, creating jobs and reducing poverty, and to be another incentive for farmers to invest in productivity.

b) Promote diversified livelihoods on and off the farm

Private-public partnerships and other innovative approaches to investment in post-harvest enterprises and non-agricultural assets lead to diversified rural livelihoods. This helps tackle risks and vulnerabilities, contributes to poverty reduction and to increased purchasing power for the urban or rural-urban poor. Measures to help diversify livelihoods are vital and can be implemented at a local level.

c) Reduce Risk and vulnerability

Many developing countries face numerous production risks and frequent shocks and pressures. When production risks are too high, producers will not invest in inputs and the means of production, and banks will continue to justify excessive interest rates for loans to small producers. Innovative insurance products or guarantee funds need to be tested and applied to stimulate production and share risk mitigation strategies.

Social protection measures are short- and medium-term mechanisms protecting the poor from extreme shocks. They have proven to be an adequate short-term response to the urban poor, but they also need to be aimed at smallholder farming to break the vicious circle of poverty, stabilise poor rural livelihoods and promote agriculture, which is vital for many developing countries.

In many poor countries inadequate nutrition is an issue beyond the availability of food that irreversibly affects physical development, especially that of children. In times of high food prices, people are increasingly vulnerable and cope via a reduced number of meals per day and by reducing the nutritional value of their diet. Nutrition is therefore a poverty indicator that needs to be monitored in countries with poor populations.

Managing the change process

The consequences of rising food prices in developing countries have not only shown the inter-linkages of rural and urban economies, but also the crucial importance of agriculture in pro-poor economic growth and poverty reduction. It has served to put agriculture back on the agenda. Even though the principles and priorities of pro-poor growth in agriculture are known and agreed, new aspects for their implementation need to be considered by donors:

At national level

- Match top-down priorities and action agendas with national policy research for evidence-based policy choices and decisions.

The implementation of action plans has often failed because existing policy bottlenecks have not been identified and removed. Increasing the capacity in statistics and policy analysis therefore has to be a priority so that the dynamics and typology of the agricultural production and consumption sectors become institutionalised knowledge. It also allows a government's vision of a rural society to correspond to its needs and realities.

- Clarify the role of government in agricultural sector development as well as its role as actor and facilitator; invest in innovative PPPs.

Governments' subsidiary role in agricultural development has to be defined and respected in each context and from the very beginning. Interventions should aim to promote the emergence of a truly private sector.

- Ensure the competent co-ordination of agricultural support to make it effective, while keeping it as light-handed as possible.

Donor co-ordination should not become an objective in itself, but a means to reach common goals. In the sector round tables of the Third High Level Forum on Aid Effectiveness (Accra, 2008), development partners underlined the particularity of the agricultural sector. Many ministries and public institutions are involved in the agricultural sector, all with various and/or different donor support. The Global Donor Platform on Rural Development offers an opportunity to find innovative ways to go beyond processes and to help donors align and contribute to countries' priorities (e.g. thematic issues such as extension systems).

Donor co-ordination in agricultural research seems to function rather well and could become a model for other roles and responsibilities a government has to ensure, such as service delivery, capacity building and farmer education. By applying the above principles and priorities together with thorough policy research, monitoring and evaluation might provide enough guidance to move ahead on a less complex but still co-ordinated level. Donors are advised to invest in both their own capacity development as well as that of partner countries in order to maintain an effective dialogue.

At global level

- Define the rules and mechanisms of a new and truly global food security system.

Achieving global and local food security also means achieving functioning global and local markets. Global markets have proven to be affected by local shocks (e.g. drought in a major producing country). While the benefits of global markets are shared, risks are usually borne by the weakest – poor people and poor countries. Soaring food prices in early 2008 have proved this, as staple food simply became unaffordable for the poor. Innovative mechanisms for open and competitive trade need to be developed in order to share globally not only the benefits but also the risks.

- Invest in global public goods to ensure that agriculture becomes a sustainable growth sector.

Agricultural research is most efficient and effective when working in a network. The Consultative Group for International Agricultural Research (CGIAR) system provides an excellent environment and a competent governance structure for its donor support. Furthermore, global support is needed for issues like biodiversity or desertification as well as co-ordination for policy making, but also for preserving agricultural genetic resources. Funding should address international and national research equally.