

# **POLICY DIALOGUE ON HIGH FOOD PRICES OUTLOOK AND DONOR MID-TERM RESPONSES**

## **DISCUSSION SUMMARY**

**12-13 FEBRUARY 2009  
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**POLICY DIALOGUE ON HIGH FOOD PRICES: OUTLOOK AND DONOR MID-TERM  
RESPONSE**

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**Main Findings**

- **There is consensus that hunger in the 21<sup>st</sup> century is unacceptable and even less so its increase.** Today, we are further away from the MDG targets on poverty and hunger than we were a year ago. Reducing hunger and malnutrition requires political will and technical solutions.
- **Causes of the situation include underinvestment in agriculture, failing food markets and public policies.** The outlook is one of continuing high food price volatility and reduced affordability, impacting the livelihood and vulnerability of poor people and smallholder farmers.
- **There is a lack of finance and capital flowing into agriculture, from all sources – governments, the private sector and donors.** The economic crisis will exacerbate the situation – and both developing countries and donors now have much lower response capabilities.
- **The years of neglect of agriculture by both developing countries and donors have had a high cost** resulting in inadequate institutional development, weak ministries, education and research systems, and extension services. Addressing this requires a long-term approach to which we must all commit. The major bottlenecks lie with political will, policies and institutions.
- **The focus needs to be on promoting pro-poor agricultural growth particularly in agriculture-based economies.** There is a broad range of technologies and ecological approaches that can be drawn upon. A holistic approach, in which agriculture is “desectoralised” needs to be taken; we need to reprioritise agriculture in the political economy of policies and rebuild capacities, but equally we need to look beyond to wider issues such as structural transformation, climate change and policy coherence.
- **Institutions are critical.** Functioning institutions that manage the agricultural sector and link smallholders to value chains are needed. The international aid system needs to promote a policy, institutional and implementation space for poverty reduction and food security that is empowering and inclusive. Capacity building of stakeholders at the organisational and policy-making levels in both developing countries and donor organisations is essential.
- **Social protection systems have an important role,** and we have to recognise the key linkages between child nutrition, health and development.
- **Global arrangements and the global partnership must be inclusive,** and be able to move on from possible disagreements to find creative outcomes. Actions such as advancing the Comprehensive Africa Agriculture Development Programme (CAADP) and implementing the Comprehensive Framework for Action (CFA) are critical. We should avoid ‘silver bullet thinking’ and policy shortcuts that could be very unproductive. We need to ensure that policy making is truly evidence based. Short term responses must not outlive their usefulness and result in perverse effects; aid must not be seen as the fire brigade or as “projects without development”.

## I. BACKGROUND

1. The sharp rise in food commodity prices that peaked in mid-2008 worsened the plight of millions of economically and nutritionally vulnerable people. This triggered emergency responses on numerous fronts. Donors and recipient governments provided immediate additional funds for the distribution of food, to finance subsidies for the purchase of staples, fertilizers and seeds and support basic social protection programmes. The governments of some countries introduced policy measures such as food price controls, reduced tariffs and other taxes on foodstuffs and/or implemented export taxes and bans. Some of these short-run actions undoubtedly helped mitigate the problems the food price spike created for people with not enough money to pay for food. Others may have exacerbated them.

2. Donors are committed to strengthening their short-term responses but also to strengthening the medium term response and to tackling the underlying structural issue of global food security, particularly issues related to agriculture. Donors are aware that support to the agricultural sector has been waning and that bilateral aid to agriculture dropped considerably over the last decade, now standing at 3.4% (2007) of total bilateral ODA. Conscious of this, many participants from donors and partner countries alike signaled their objective to increase their budgets for agriculture.

3. In response to the keen interest in this issue from the 2008 OECD Ministerial Council Meeting (MCM) and the DAC High Level Meeting 2008, the OECD and the Global Donor Platform for Rural Development organised an expert level policy dialogue on 12-13 February 2009 at the OECD in Paris. The event focused on how donors can respond best to the food price challenges in the *medium and long-term*, fostering pro-poor agricultural production and strengthening food security in developing countries. It brought together donor and developing country representatives and other high level experts, taking into account the work of the 'High Level Task Force on the Global Food Security Crisis' with its 'Comprehensive Framework for Action (CFA)' and connected to the outcomes of the 'Madrid High Level Conference on Food Security for All' in January 2009. The present document is a summary of the discussion in this policy dialogue.

## II. SETTING THE CONTEXT

4. The development agenda has changed since the food price peak in 2008. The latter resulted in an increase of people living in poverty and suffering from hunger. Poor people spend over half of their available income on food staples and have no choice but to respond to high food prices by reducing consumption and nutrition levels even further. Today, 1 in 3 people in Sub-Saharan Africa still do not have enough to eat. The recent decline in grain prices observed on global markets (probably mainly due to the global recession and the lack of confidence in markets) has not yet led to a similar decline in price levels in many national economies, because their food markets are not fully integrated in the world economy. Furthermore, as farm inputs are imported in most countries, locally produced food follows the price pattern of the more volatile behaviour of non-agricultural commodities such as oil, again affecting fertilizer prices. Price volatility for maize and wheat has almost doubled over the last ten years, showing an increasing correlation of food prices to oil prices. Further drivers of food price volatility are the more extreme weather events under climate change and reduced global grain stocks, leading to reduced investment in production and defensive market regulation policies respectively.

5. When staple food prices become more volatile, vulnerable people in developing countries are increasingly pushed into hunger. Volatile grain prices tend to discourage investment towards increased agricultural productivity, but encourage over-investment in backyard subsistence food production to mitigate risk. National policies tend to protect national production and to subsidise food imports, bringing pressure on the balance of payments, with corresponding long term macroeconomic impacts, but also to an undermining of regional integration initiatives. In the context of the financial crises, other coping mechanisms for poverty, such as remittances to developing countries, have started to collapse. Furthermore, a number of countries, some with limited potential for food production, are starting to venture into long-term leasing of agricultural land in developing countries, with employment being the only potential benefit for the developing country.

### **III. SHAPING THE RESPONSE**

6. The food security crisis is a global issue that has to be addressed in a global and comprehensive manner. Hunger is a consequence of a lack of political commitment and bad policy choices jeopardising investment in the national economy. Poverty reduction results from investment and trade that supports pro-poor economic growth. Development aid needs to help put policies in place that ensure that poor people participate in, contribute to, and benefit from growth. An inclusive partnership of all stakeholders is needed and new ways of working together need to be pursued.

7. There is consensus that hunger in the 21<sup>st</sup> century is unacceptable and even less so its increase. Reducing hunger requires political will as much as technical solutions. Food security is primarily the responsibility of national governments and therefore an issue of governance and accountability. A government objective must be to build resilience in the food security system, to strengthen risk management and coping strategies of poor and vulnerable people and smallholder farmers. Agriculture remains under-funded and therefore under supported by national governments and their development partners alike; policies favour the urban consumer and discourage private sector investments especially in rural areas. This needs to be reviewed and has to be tackled urgently.

8. Policies to increase food security and reduce the vulnerability of poor people need to be comprehensive in nature. It requires short and long-term dimensions without dividing things into a humanitarian and a development response. Pro-poor economic growth should be at the centre of any development process. Development policies need to find the optimal allocation between productive and social sectors, bearing in mind the complementarities between these in terms of longer term development objectives. They have to address investment in institutions, people and productivity.

9. The concept of the right to food describes how to shape such a comprehensive response. Fighting hunger is about equality, accessibility, purchasing power, and puts people in the centre of an economic process. Unlike the rather homogenous social 'sectors' such as education and health, agriculture is heterogeneous and specific to agro-ecologies within a country and cannot be treated as a single 'development sector', but has to be addressed as a heterogeneous sector. While the state is the main actor in social 'sectors' with mainly public investment, the state is mainly the regulator, facilitator and at times service provider in agriculture with public investment to leverage private funds. Agriculture and rural development goes well beyond the productive supply side of producing food and therefore needs to be a cross cutting policy sphere, requiring a whole of government response.

10. Farmers themselves represent the large majority of investors in agriculture. Policies should therefore seek to secure their investment and aim at increasing their capacities to better react to challenges and new technologies and increase their capacity to innovate. There is a high need for professionalising agriculture and to invest in the organisational capacity of smallholder farmers. The more educated and organised farmers are, the more they are able to participate and exert influence in their value chains.

11. The Comprehensive Africa Agriculture Development Programme (CAADP) is conceived, owned and driven by African countries. Its objective and targets have been set by African Heads of State, and address agriculture-led growth to reach MDG1. It is a common framework, taking priority over other initiative and includes peer reviews and accountability mechanisms on all levels. Some are concerned that current discussions on a new vertical financing mechanism might disrupt country-led approaches and result in unwanted parallel processes.

12. There is already ample information available on what needs to be done to support agricultural productivity and smallholder farming: The World Bank's World Development Report 2008, the IAASTD's priorities and goals endorsed by 60 countries<sup>1</sup>, and the OECD/DAC policy guidance on promoting pro-poor growth in agriculture are key reference documents that should be considered when developing national policies and strategies.

13. Evidence-based policy setting is a crucial pre-condition to increase the effectiveness of support to agriculture. Badly needed intellectual debate and ownership of policy analysis and choices has to be rooted in the countries themselves. Consequently, analytical skills and capacities have to be increased in people and institutions, and used to influence dialogue and decisions. Built on the experience of policy setting procedures in OECD countries, developing countries have to be clear on what kind of agriculture they want to support. Consequently, their policy choices should be based on evidence. Donors should provide assistance to this specific capacity building objective and measure progress on results and agreed accountability mechanisms.

#### **IV. DONOR PERSPECTIVES**

14. Donors agree that the downward trend of investment in agriculture needs to be inversed rapidly. Investment in agriculture needs to be continuous, with a clear long-term perspective, ensuring that there is a real and continuing increase in capital and financial flows to rural areas. With respect to the African context, the CAADP provides a key and agreed comprehensive and co-ordinated framework for agricultural development and food security. Implementation of the CAADP on national level will facilitate the predictability of donor commitments and managing for development results. In this context, the need in Africa for an additional financing mechanism for agriculture and food security seemed questionable.

15. Decreasing budgets, investment and interest of donors in agriculture all resulted in losing skills, knowledge and assets within the donor community. Developing countries expressed a need for donors maintaining a professional and supportive agriculture policy dialogue at country level. Donors should therefore invest in their own technical capacities rather than concentrate purely on processes.

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<sup>1</sup> IAASTD: International Assessment of Agricultural Knowledge, Science and Technology for Development  
<http://www.agassessment.org>

Furthermore, donors should accept country plans that are “good enough” rather than looking for ones that are “perfect” and respond to every donor’s favourite policy issue. Donors should move ahead with implementation and be ready to give advice. International coordination mechanisms (such as the Global Donor Platform for Rural Development with its joint donor principles) have an important role to play in a shared dynamic and learning, but we must not forget that, in the end, investment in agriculture takes place at the local level.

16. The principle accountability mechanism is certainly the one between donors and partner governments, leading to a negotiation of objectives between them. However, donors should promote the leadership of countries’ priority setting processes and make sure that they are country-driven and owned through inclusive consensus building. Promoting democratic institutions can lead to an increased ownership of development objectives. Donors should focus on their development responsibility, supporting governments that are accountable towards their citizens, civil society, private sector, and decentralised government entities and enlarge their policy dialogue space.

## **V. AGREEMENTS AND OPEN ISSUES FOR DONORS**

17. At this policy dialogue, the agenda was clearly directed towards achievement of MDG 1, with poor people put at the centre of it. A comprehensive response on short and long-term objectives, including the right to food, was described and the international momentum maintained. However, caution was expressed -- there are no magic bullets, the challenge ahead is difficult, and we should not fear disagreement and conflict in the upcoming process. But times of threats, risks and changing agendas are also times of opportunities and new approaches.

18. Participants to the policy dialogue agreed on many issues, while keeping practicalities and next steps open. The common ground is rather strategic in nature, while the consequences at the operational level require follow-up:

- The strategic direction of what has to be done is clear (see shaping the response: smallholder productivity, capacity of stakeholders, institution building) and the important contribution of research in this process recognised. However, there is no clear consensus on the role of the state and who needs to do what.
- Investment in agriculture is mainly a private sector activity, but the private sector can’t do enough by itself. A balance between government and private sector investment has to be found. But how to integrate the private sector? The private sector seems ready to buy-in. But how and at what scale?
- Policy coherence between ministries in partner and in donor countries alike and between donors is crucial for moving ahead. However, in reality, donor messages given at the global level often contradict those given at the national level. How can donors improve their internal coherence? Entry points like the Accra Action Agenda and the OECD/DAC policy messages on Agriculture and Pro-Poor Growth should be considered as a consensus and common baseline.

- Appropriate and working institutions are key in shaping national and global responses. Working in partnership is central in dealing with plurality. Institutions need to be empowered to working together and engage in open spaces. But are donors coherent enough to work in this direction?
- The Madrid High Level Meeting on Food Security for All (January 2009) agreed that the creation of a GPAFSN (Global Partnership for Agriculture, Food Security and Nutrition) should be explored through an inclusive process. The establishment of a contact group that will feed into the inter-governmental negotiating process is to be established. It was also agreed that supporting agriculture needs to be done at country level, and hence needs solutions and mechanisms at national level.
- From all actors, an increased appetite for accountability mechanisms in both donor and partner countries was clearly heard.