

Financing food security and sustainable agriculture

Record global food prices are easing under the impact of the economic slowdown, but the new economic and financial environment is posing a difficult set of challenges.

The initial rapid rise of food prices in early 2008, and in the years immediately preceding, was linked with upward pressure on commodity prices after years of strong economic growth in 2003-7. Rising standards of living, better diets and higher costs of petroleum (a major input to food production) combined with poor harvests in key countries to push prices up steeply. The toll has been heaviest on poor countries, triggering political instability and throwing 75 million more people into the ranks of the hungry in 2007, according to the UN Food and Agriculture Organization (FAO).

Economic contraction and a record 2008 cereal harvest teamed up to tame global prices. By September 2008, the FAO Food Price Index had fallen back to levels prevalent at the beginning of the year. But in many low-income countries, where prices and markets are highly localized, food prices remain high or continue to rise.

In the meantime, prospects for a revival in the health of the agricultural sector, and livelihoods of small farmers, are in jeopardy.

“The great uncertainty now enveloping international markets and the threat of global recession may tempt countries towards protectionism and towards reassessing their commitments to international development aid,” Director-General Jacques Diouf said to FAO’s Committee on Food Security, on 15 October.

Downward price volatility, virtually as de-stabilizing as sharp increases earlier in the year, could mean a cutback in plantings, followed by reduced harvests in major exporting countries, the FAO warns. Given that grain stocks have been depleted, this scenario could lead to another round of record food prices next year.

Among the potential impacts of the mix of price volatility, financial turmoil and quickly decelerating economic growth are:

- Low-income food deficit countries and other emerging market nations affected by the food crisis may face heightened difficulties in financing food imports due to deteriorating balance of payments and depreciating currencies.
- Exporting nations face lost revenues from reduced global demand for their commodity exports, leading to difficulties in maintaining social safety nets such as school feeding and food subsidies.
- Plans for medium-term expenditures to enhance agricultural productivity and strengthen food supply in the longer term in the developing world may be put on hold by fiscal restraints and funding cutbacks.
- Negative macro-economic impacts on agriculture and food security may be felt in terms of declining “borrowing, bank lending, official development aid, foreign direct investment and workers’ remittances”, according to FAO Director-General Diouf.
- The credit crunch may prevent international food markets from functioning properly, as exporters find it harder to acquire foreign lines of credit.



Steps toward a solution

UN Secretary-General Ban Ki-moon established a High-level Task Force on the Global Food Security Crisis early in 2008, involving 17 UN funds, programmes, agencies and departments, including the Bretton Woods institutions and the World Trade Organization. Working together, Task Force members developed an action plan – known as the Comprehensive Framework for Action (CFA). Some of the steps detailed in the CFA include the following:

- Building up public infrastructure such as roads, irrigation, transport and storage facilities will help to spur private investment and the global partnership the CFA is calling for between governments, business and civil society.
- The Secretary-General is asking donors to triple the currently low level of aid for agriculture (about US\$ 4 billion). Affected countries also should scale up the share of public spending on agriculture, rural infrastructure, technical and financial services to small farmers and medium-scale commercial farming.
- To cope with volatility in food prices, it is sensible to invest in food security risk management. Mechanisms include developing food security plans and strengthening the use of community, local and regional food stocks.
- Minimizing export restrictions and levies on food commodities in both food importing and exporting countries will help to stabilize food prices overall.
- Countries should return to the table for the WTO Doha Development Agenda talks, and agree on substantial reductions in agricultural subsidies and on lower tariffs to help improve food security and smallholder production in developing countries.
- Biofuel development should strike a balance between food security and energy security, allowing efficient producers in developing countries to take advantage of the potential biofuels present.