

# Food prices:

## smallholder farmers can be part of the solution



Enabling poor rural people to overcome poverty

Recent price volatility on international markets is putting pressure on global food security. For the 2 billion people who live and work on small farms in developing countries, life has become more precarious. But with the right investments, policies and development programmes in place, smallholder farmers have a huge potential to increase food production, improving their lives and contributing to greater food security for all.

The roots of the recent food security crisis go back almost 30 years, when investment in agriculture started to decline because of the growing perception that agriculture was unprofitable. In 1979, aid to agriculture was 18 per cent of total assistance. By 2006, it was just 2.9 per cent. Domestically, government investment in agriculture in developing countries also fell, by one third in Africa and by as much as two thirds in Asia and Latin America during this period.

In many developing countries, particularly low-income countries, a policy vacuum accompanied the decrease in investment. Governments dismantled older, costly instruments that had supported agriculture, but did not replace them with new, more effective ones.

In the absence of spending and supportive policies, the growth rate of agricultural productivity began to drop, from some 3.5 per cent in the 1980s to about 1.5 per cent today. Global food stocks also diminished – by about 3.4 per cent a year since 1995.



IFAD/M. Milinga

When poor farmers have access to credit and reliable storage facilities for their grain, they have the option of selling at the best price. The warehouse receipt system, introduced through an IFAD-supported programme in the United Republic of Tanzania, is one way of helping farmers take advantage of higher food prices and safeguard food security.

Today food security is critical. Climate change is expected to reduce the availability of arable land and water. And more agricultural land is being devoted to biofuels rather than to food crops.

At the same time, a growing and more affluent world population is raising demand for food. To meet this demand, cereal production will need to rise by an estimated 50 per cent by 2030 and meat production by 85 per cent. The question of who produces this food is crucially important.

Most of the world's smallholder farmers are struggling to live and to feed their families on less than US\$2 a day. Many have not been able to respond to increased demand because they lack access to assets and capital, and they face higher transaction costs, which makes it difficult for them to adapt and respond quickly to market developments.

Smallholder farmers do not compete on equitable terms in local, regional or global markets. Often they lack access to

markets because roads are poor or transportation is too expensive. And higher food prices do not always filter down to the farm-gate, where poor farmers often have to sell their produce.

As a result, the increased demand is being met by large commercial farmers in developed and food-exporting countries. From 2007 to 2008, cereal production in developed countries increased by 12.7 per cent. Production in developing countries rose by 2.7 per cent in the same period. And when Brazil, India and mainland China are excluded, production in developing countries rose by only 0.18 per cent.

Supporting smallholder farmers would not only enhance world food security, but would make a significant dent in poverty. Leaving them out of the equation will push many into greater poverty and hunger.

When people cannot make a living on the land, they are often forced to leave it. This economic migration has implications for social tension, urban poverty and conflict.

## KEY FACTS

- The world population is expected to grow by 50 per cent by 2050.
- Food production will need to rise by 50 per cent by 2030 to meet growing demand.
- There are about 500 million small farms in developing countries, supporting almost 2 billion people – one third of humanity.
- The number of hungry people in the world is expected to reach 1.02 billion in 2009.
- Despite the decline in international prices in the second half of 2008, in December 2008 FAO's Food Price Index was 28 per cent higher than in 2005. Domestic food prices remain very high in several developing countries affecting access to food of low-income population groups.
- Government spending on agriculture in the world's poorest countries averages 4 per cent of public expenditure.
- Development aid to agriculture was 4.6 per cent in 2007, compared with 18 per cent in 1979.



IFAD is an international financial institution and a specialized United Nations agency dedicated to eradicating poverty and hunger in rural areas of developing countries.

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# The power of smallholder farms

Smallholder farms are often very efficient in terms of production per hectare, and they have tremendous potential for growth.

Experience shows that helping smallholder farmers can contribute to a country's economic growth and food security. For example, Viet Nam has gone from being a food-deficit country to a major food exporter, and it is now the second largest rice exporter in the world. It achieved this largely through development of its smallholder farming sector. In 2007 the poverty rate fell below 15 per cent, compared with 58 per cent in 1979. Seventy-three per cent of Viet Nam's population live in rural areas, and agriculture is their main source of income.

Smallholder farmers can contribute to greater food supply for the world. But, first, they need secure access to land and water – as well as to rural financial services to pay for seed, tools and fertilizer. They also need roads and transportation to get their products to market, and technology to receive and share the latest market information on prices. And they need stronger organizations, so they can have greater bargaining power in the marketplace and can influence national, regional and global policies related to agriculture.

Above all, smallholder farmers need a long-term commitment to agriculture from their own governments and the international community, backed up by greater investment.

## What is IFAD doing?

IFAD recognizes the need for a concerted, comprehensive and coordinated effort by the international community.

It played an active role in the High Level Task Force on the Global Food Security Crisis, established by the United Nations Secretary-General in April 2008. The task force produced a Comprehensive Framework for Action, which aims to ensure that the international effort is well planned and coordinated. IFAD now hosts the Rome hub of the Secretariat of the task force.

Partnerships are essential in overcoming hunger and addressing food security. IFAD's key partners are poor rural people and their organizations. IFAD also works with the Food and Agriculture Organization of the United Nations (FAO), the World Food Programme (WFP), the World Bank and other partners. In this broad partnership, governments play a key role in guiding international efforts to ensure an effective, efficient and coherent response to the challenge of global food security.

IFAD was set up to help combat rural hunger and poverty. It focuses on strengthening the capacity of poor rural people to respond to and shape the challenges and opportunities they face. Farmers' organizations play a key role in defending the interests of poor rural people in an increasingly competitive and global market. Strengthening these organizations is fundamental to the way IFAD works.

During the Eighth Replenishment of IFAD's resources in 2008, IFAD's Member States agreed to contribute US\$1.2 billion to the Fund. This means that IFAD will be able to considerably expand its programme of work up to US\$3 billion during the period from 2010 to 2012. It will continue to strengthen its development effectiveness and expand its investments in sustainable agricultural production in order to guarantee food security, nutrition and rural development, and to eliminate the root causes of hunger.

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