Statement by

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The persistence of high and volatile food prices has kept the issue of price volatility prominent on the global policy agenda in recent months. Though the worldwide price increase that started in mid-2010 appears to have slowed, uncertainty continues regarding supply prospects and their price implications for some major food commodities.

So far, price trends have been uneven across and within countries, due in particular to local conditions affecting harvests. In much of Africa, for instance, good cereal harvests have kept prices relatively stable. However, the recent global price spike has reverberated in many food-insecure areas, eroding the purchasing power of poor households and diminishing food security and nutrition.

Price volatility and poor rural producers

For poor producers in rural areas – who represent more than half of the world’s undernourished people – food price increases represent both a potential opportunity and a threat. On the one hand, higher food prices provide incentives for smallholders to produce more food for the market. This helps meet increasing demand and improves food security while raising their incomes. On the other, high food prices can severely harm poor households, which spend a large share of their incomes on food. This includes most poor farmers and livestock producers who are net food buyers, as their expenditures on food often exceed what they earn from selling the food they produce.

Unlike higher food prices, price volatility – a term that refers both to an extreme range of price fluctuations and to the unusual unpredictability of prices – is unquestionably a major threat to food security. As net food consumers, farmers may be hurt by price spikes, while as producers they are also are hurt by sudden or extremely low prices. Moreover, producers are heavily affected by the unpredictability of prices, which prevents sound planning and makes investment more risky. This uncertainty discourages smallholders from investing in increasing their production and improving links to markets where demand for food is steadily increasing. This is especially the case when investing is already risky for other reasons – a more unpredictable climate, high risk of post-harvest losses, poor and insecure transportation infrastructure, and lack of bargaining power in the market.

Smallholders are also hurt by price hikes affecting the cost of producing and marketing their products. They are especially sensitive to oil prices, which affect not only transportation costs but also the costs of many agro-chemicals that smallholders need to increase and stabilize supply.

Rural price volatility in developing countries

Volatility in global food markets can be transmitted, to varying degrees and at varying paces, to developing country markets, particularly in urban areas. Conversely, in rural areas it is often primarily local factors that affect price volatility. Many are related to local supply shocks, which may be intensified by climate change and exacerbated by inadequate production and post-harvesting practices and technologies.

Another factor is market imperfections upstream and downstream in agricultural value chains. Weak upstream markets limit small producers’ access to inputs, technologies and financial services, including investment capital, as well as risk management products such as insurance. Weak downstream markets
restrict their opportunities to respond to growing demand for food in urban markets and across borders, due to poor market information, high transaction costs and the poor state of post-harvest, transportation and market infrastructure.

Recent international attention to global food price volatility has generated broad consensus on the need for a range of responses, both short term and long term. These include improving market information, better coordinating policies affecting prices, enhancing the functioning of financial markets affecting agriculture and boosting food supply. It is widely accepted that price volatility has no quick fix, given that it results largely from a growing supply-demand gap, compounded by market imperfections.

While we welcome the favourable outlook within the G20 for reaching consensus on a shared approach to food price volatility, we draw attention to two concerns that particularly affect poor rural producers. First, the political urgency to find rapid solutions may lead to short-term actions that are not coherent with longer term approaches. For instance, price spikes that hurt poor urban consumers may prompt governments to undertake measures that reduce incentives for domestic producers.

Second, international concern about price volatility has not focused sufficiently on the causes and consequences of price fluctuations in rural areas of developing countries. Investing in strengthening the productivity, sustainability, resilience and market integration of small-scale agriculture in developing countries is an ideal way to bridge short-term and long-term responses. It is also an excellent tool for ensuring that adequate attention is given to local and domestic factors of volatility affecting smallholder producers. We urge greater consideration of these concerns within ongoing deliberations on food price volatility.

Bolstering and stabilizing smallholder production and productivity

In collaboration with a range of partners, IFAD’s operations address several factors contributing to food price volatility as it affects poor rural producers. Key elements of this response include:

- **Household food security.** IFAD-funded projects help to raise and stabilize the incomes of poor rural people, enabling them to improve their food security and nutrition through better access to food on the market. Many initiatives also aim to improve nutrition in the short term, by supporting non-market-oriented agricultural strategies at the household level, such as home vegetable gardens, increasing availability of safe water for human consumption and boosting women’s economic empowerment while reducing their drudgery.

- **Sustainable and resilient production.** Programmes that work to improve agricultural production increasingly promote practices that also increase sustainability and resilience, to make supply less volatile. Typically, this includes building on local practices while harnessing the best that agricultural research and development can offer to address problems faced by small producers. It involves bringing together a variety of actors to address these problems from different perspectives. This nurtures innovation and builds the capabilities of poor rural women and men as producers and managers of increasingly scarce resources.

- **Stronger and more stable and equitable markets.** A growing percentage of IFAD projects promote the development of value chains, a precondition for thicker and less volatile markets. These projects focus on ensuring that producers enjoy well-functioning markets for the inputs and services they need. They also work to help producers capture greater value through post-production handling and processing; store their produce safely and affordably; and interact on fairer terms with other actors, from local traders to agribusinesses.
Some approaches serve several goals – for instance, warehouse receipt systems in parts of Africa have improved private storage for better and more stable product quality while providing farmers with access to finance. This reduces the pressure to sell right after harvest and facilitates interaction with large buyers. Many projects also contribute to improving rural infrastructure, which helps to reduce the cost of taking food to markets, stabilize the quality of production and mitigate seasonal price fluctuations.

- **Improved risk management.** Finally, IFAD strives to support small-scale producers to manage risks linked to volatile supply and price uncertainties. Part of our recent experience in this regard revolves around developing index insurance products to help stabilize farmers’ incomes under unpredictable environmental conditions. Another part involves reducing the risks of production and market engagement – through more resilient production practices, practices that rely less on inputs with volatile prices (e.g. oil) and risk-reducing arrangements among value chain actors (e.g. contract farming). Improving the infrastructure of rural areas and markets is also a key part of diminishing risk in the business of food production. Such efforts contribute to decreasing volatility while improving the ability of small producers to manage price-related risks.

**Looking ahead**
Going forward, more work is needed on all these fronts by a range of actors. Greater innovation is needed to complement required investments around new technologies for enhanced productivity, sustainability and resilience in agriculture, insurance and other risk management tools, as well as new value chain arrangements. To achieve real impact requires scaling up what works, and that calls for both partnerships and sound and innovative policy. All initiatives need to rest on a common understanding that price volatility is not a transient phenomenon, but rather a symptom of a growing supply-demand gap coupled with persistent weaknesses in agricultural and rural markets. Responses also need to rest on a clear understanding of the role that smallholders can play in ensuring food security in their countries and beyond, so long as the factors underlying volatility are addressed and smallholders’ risk-management capacity is improved.