



## **2008 High-level Segment Thematic Debate on Rural Development**

### **Issues Note for Roundtable 2:**

**Harnessing the current boom in agricultural commodities for  
poverty eradication  
and sustainable development: the case of small-scale farmers**

**Thursday, 3 July 2008**

**3:00 p.m. – 5:30 p.m.**

## I. Background

1. Agriculture is the main contributor to development, food security and poverty reduction, particularly in the developing countries. Despite ongoing progress in global agricultural production (including fisheries and forestry), about 854 million people in the world still suffer from chronic hunger. Of these, 820 million live in developing countries, 25 million live in transition countries and 9 million are in the developed countries. The current global food crisis, which has seen food prices skyrocketing, is driving over 100 million more people into poverty.

2. At the Special Meeting of the Economic and Social Council on 20 May 2008 to address the crisis, Member States and other stakeholders emphasized the importance of immediately boosting the production of food by smallholder farmers as a way to improve food security and improve livelihoods. The Declaration of High-Level Conference on World Food Security in Rome specifically urged “governments to assign appropriate priority to the agriculture, forestry and fisheries sectors, in order to create opportunities to enable the world’s smallholder farmers and fishers.”<sup>2</sup>

3. However, smallholder farmers, who constitute the large majority of agricultural producers, are often unable to respond to food price increases with increased production due to a lack of access to financing, agricultural inputs and markets as well as the impacts of environmental degradation and climate change. The 2007 fourth *Global Environment Outlook: environment for development* (GEO-4) report says unsustainable land use is driving land degradation in different regions, impacting agriculture. Land degradation ranks with climate change and loss of biodiversity as a threat to habitat, economy and society. Smallholder farmers are, therefore handicapped in their effort to feed their families and increase food availability in local or national markets. Without urgent support, these communities not only face negative consequences in terms of their nutrition, health, education and assets, but are also limited in their contribution to agriculture and development. In some cases, these farmers are withdrawing from the market and reverting to subsistence cultivation for household consumption.

## II. Context

4. It is increasingly accepted that the food crisis is the result of a confluence of factors at the national and international levels, some which are short-term in nature and others that are more deeply rooted. These include low productivity and investment in agriculture; supply-capacity constraints in many developing countries; trade-distorting measures such as subsidies to production and exports so far permitted by multilateral trading rules for the agricultural sector; record-high oil prices, promotion of biofuels based on food crops; insufficient fair competition, in markets dominated upstream by suppliers of production inputs and downstream by buyers of agricultural produce; and speculation in food commodity markets.

5. Investment in sustainable land management and agriculture in developing countries has been neglected for decades by national governments and international donors and foundations. In Sub-Saharan Africa, for example, public spending on farming is 4 per cent of total government spending and only 4 per cent of global ODA is directed to agriculture. The agricultural sector in Africa, and to a lesser extent other developing countries, is generally characterized by low yields, low purchased inputs, low credit access, poor road and other infrastructure making access to domestic and

international markets difficult and costly<sup>1</sup>. Women are particularly affected as they form the majority of the farmers in developing countries. Poor agricultural performance is a source of food insecurity only partially compensated by food imports and food aid<sup>2</sup> - indeed, food aid in kind has often undermined incentives for agricultural production in developing countries and, hence, long-term food security.

6. The shortage of investment in developing countries' agriculture has been due in large measure to the low or declining world food commodity prices, as a result of overproduction in developed countries, mainly the EU and the US, where farming is heavily subsidized. The domestic policy environment in developing countries, with increased opening of markets and concomitantly a reduced role of the state in providing support services for agriculture, in a context of internationally distorted markets, has also led to low or more volatile local food prices and few policy levers to shield producers from risks, further decreasing investment incentives. The lack of investment in the sector is closely linked to the fundamental factor underlying the shortages in the supply of agricultural foodstuffs, that is, low agricultural productivity in the past couple of decades in many developing countries. Average annual agricultural productivity in LDCs between 1961-2003 declined by 0.1% in LDCs, and rose only 0.6% in developing countries.<sup>3</sup> Low productivity stems from many factors, including a limited use of agricultural inputs such as improved seeds and fertilizer; insufficient investment in R&D; and a reduction in arable land due to urbanization and climate change.

7. There has also been an overall systemic failure of development strategy – the adverse effects of lack of public and private investment in the rural and agricultural commodity sector have been compounded by: underinvestment in infrastructure services (transport, communications, irrigation); structural adjustment programmes that encouraged fiscal austerity and weakened or eliminated the role of marketing boards and commodity stabilization funds for agricultural commodities and food staples; and declining ODA for agricultural development. In fact, between 1980-2002, multilateral ODA to agriculture fell from US\$3.4 billion to US\$0.5 billion and bilateral aid fell from US\$2.8 billion to US\$1.7 billion. Furthermore, foreign aid for science, technology and innovation in agriculture has been neglected, with only 3 per cent of STI-related aid going to agricultural research in LDCs.<sup>4</sup>

8. It also appears increasingly likely that the global food price surge is linked to recent volatility and turmoil in global finance. Speculators looking for assets with rising prices have reoriented their portfolios to buy food commodity-linked assets (commodity indices, futures and options contracts). The amount of money that funds invested in the commodity indices is estimated at about \$170 billion<sup>5</sup> and, in the first quarter of 2008 the volume of globally traded grain futures and options increased by 32 per cent relative to the same period in 2007. While there is no precise information on or analysis of the impact of speculative funds on food prices, there are reasons to believe that the price rises of some key staples are attributable, to a substantial extent, to speculation in food commodity markets feeding the price rise spiral.

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<sup>1</sup> DESA, 2008. Trends in Sustainable Development: Africa Report 2008-2009. New York, UN

<sup>2</sup> Supra note 1

<sup>3</sup> Shenggen Fan 2008, "How to promote agricultural growth in LDCs through productive investment?", Background paper, LDCs Report 2008.

<sup>4</sup> UNCTAD Least Developed Countries Report 2007.

<sup>5</sup> World Commodity and Food Crisis: Trends and expectations, Yapikredi Bank, Yelda Yucel, May, 2008.

9. Policies and measures to help farmers, particularly small agricultural producers in developing countries, to increase production and integrate with local, regional, and international markets on fair and competitive conditions, are needed to promote food security. How to transform this high price curve into an opportunity for developing countries to boost incomes of small farmers and rural workers, as well as to further national development and South-South cooperation in this area, will be the subject of this Roundtable discussion.

### III. Harnessing opportunities

10. Establishing an enabling environment for small-scale agricultural producers in developing countries requires a revamping of agriculture and development policies, and trade policies, as well as policies and measures targeted to small farmers that have few economic alternatives. Current policies are based on the belief that trade liberalization leads to an improved allocation of resources that will benefit development. And, indeed, trade liberalization has benefited the development of many developing countries. However, the 2008 report of the International Assessment of Agricultural Knowledge Science and Technology for Development (IAASTD) finds that small-scale farmers in the poorest countries are net losers under most trade liberalization scenarios. The report also points out that the least endowed farmers, especially women and marginalized farmers, do not have access to improved technologies.

11. At the country level, governments of developing countries need a policy framework that creates the right incentives for investment in agriculture. Governments should invest in infrastructure services and agricultural R&D. They should eliminate tariffs on agricultural inputs; provide support to small-scale farmers for easier access to credit and inputs such as improved seeds and fertilizers, advisory services and training in improved agricultural technologies. The international community could support developing countries' agricultural development and ease access to new technologies. Special attention should be paid to women farmers because, despite women's critical role in food production, it was estimated by FAO, for example, that in 2002 women received only 5 percent of all agricultural extension services.

12. At the international level, export taxes and other barriers to agricultural exports in net food-exporting countries should be minimized. Supports and subsidies to agricultural production and exports by developed countries should be phased out quickly and eliminated. Current high prices should make this policy change politically easier. The savings from reduced and phased out supports and subsidies could be re-channeled to ODA for agriculture in low-income, net food-importing developing countries. The additional ODA could be used to finance local agriculture institution-building, including rural development banks to increase access to credit for small farmers, R&D institutions and others to provide more and better extension services to farmers.

13. As indicated previously, low levels of food stocks and distorted policies are fostering speculation by many actors. In this connection, there may be a need for alignment of financial policies and commodity markets with the principles of an efficient market system, good market conduct and surveillance to reduce the risks of overspeculation in food commodity markets.

14. Ensuring that small agricultural producers can reach global markets by integrating them in supply chains in a sustainable manner is needed. Actions to this end range from creating a

level playing field in international agricultural trade to provision of extension services at the local level. It can also include the development of policy frameworks that support the effective and advantageous integration of small producers into supply chains. Further, market information, finance, logistics, assistance to meet market requirements and other support services are among those that small producers require to overcome institutional deficiencies in the changing commodity markets of the 21<sup>st</sup> century.

11. In the face of high food prices expected to last into the medium-term, it is clear that to increase the world food supply will require enhanced agricultural research, including research on improved crop varieties better adapted to climate change, wide and rapid diffusion of improved varieties, technologies and land, soil and water management practices (e.g., drip irrigation), notably through capacity-building in extension services. Given the large and increasing costs<sup>6</sup> of commercial fertilizers, especially in remote areas with poor infrastructure, alternatives should be explored. Research increasingly finds that conservation agriculture can compete with conventional agriculture.

12. Researchers find, for instance, that though organic agriculture yields in developed countries are slightly less than conventional agriculture yields, organic agriculture yields are higher in developing countries.<sup>7</sup> They also find that leguminous cover crops can provide the necessary fertilizer to replace fossil-fuel based fertilizers. The System of Rice Intensification (SRI – applicable to a wide array of crops) has been applied experimentally in more than 20 countries and systematically shows higher yields over large areas, while using fewer external inputs and eventually less labor<sup>8</sup>.

13. Agriculture is responsible for 70% of water withdrawal worldwide and 60% of anthropogenic emissions of CH<sub>4</sub> and about 50% of N<sub>2</sub>O emissions (IAASTD, 2008). Just as incentive schemes to reduce emissions from deforestation are currently under discussion, payment or other incentives to farmers in developing countries to reduce emissions from agriculture, including by reversing land degradation, by leapfrogging to intensive sustainable agriculture systems that sequester more carbon and depend less on fossil fuels could be explored. Because conservation agriculture is based more on know-how and agricultural practices than commercial inputs, partnerships between universities and extension services and public research centers as well as with private sector companies and foundations will be needed. In this connection, the potential for enhancing South-South and triangular cooperation should be exploited.

In addition, international and national complementary actions can be taken to stimulate agriculture productivity including of food staples. These include, at the international level, actions to complete the Doha Round of negotiations with a strong development dimension in agriculture, increase ODA and FDI into agriculture development, promote food aid policies that do not act as disincentives to local food production, and address speculation in commodity markets. At the national level, actions can include the development and implementation of national agricultural commodity policies, enhance support from Governments for small farmers, adoption of trade policies that encourage agricultural production and trade, and careful assessment of the biofuels option and viability in

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<sup>6</sup> Fertilizers are fossil fuel based and thus their cost is expected to rise with fossil fuel prices.

<sup>7</sup> Badgley, C., J. Moghtader, E. Quintero, E. Zakern, M.J. Chappell, K. Avilas-Vasquez, A. Samulon and I. Perfecto. 2006. "Organica Agriculture and the Global Food Suplpy". in *Renewable Agriculture and Food Sytems*: 22(2):86-108.

<sup>8</sup> See <http://ciifad.cornell.edu/sri/> for various references.

securing energy security and protecting the climate while ensuring that food security concerns are not undermined.

### Key questions

- *What are some of the domestic policies geared towards increasing productivity (technological innovation, rural infrastructure and access to credit to land and to information) that can advance the objectives of food security and sustainable development? In this context, what are the best ways to target women farmers?*
- *What international policies in trade, aid and technology can help to promote agriculture development?*
- *What are the opportunities for Africa to leapfrog, i.e., to improve on the previous green revolution and achieve a true green revolution for Africa based on current technologies and systems of productions, even with limited targeted external supports? How can South-South Cooperation contribute?*
- *How can farmers, particularly small agricultural producers in developing countries, be enabled to better integrate with local, regional, and international markets on fair and competitive conditions?*
- *What are some of the new business models and innovations (for example, ICTs, greater use of organic agriculture) that can help them in this regard?*
- *What can the international community do to help governments develop programmes to improve access to inputs, better infrastructure, secure land tenure and better organization of poor farmers?*
- *What steps could be taken to address speculation in the food commodity sector?*
- *What concrete measures could be taken to enhance South-South and triangular cooperation in this area, as well as cooperation among Governments, international organizations, the private sector, universities/research institutes and foundations?*
- *What can be done to prioritize sustainable land management, land degradation and desertification at national and international levels?*