

## **Agriculture, rural livelihoods and poverty eradication: policy lessons from the food price crises**

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## **Introduction:**

The role of agricultural development in reducing poverty has regained policy attention in the new millennium. Since the mid-2000s, in particular, several prominent publications and policy initiatives have reaffirmed the centrality of agriculture – notably smallholder agriculture – to a kind of economic growth that helps significantly reduce poverty particularly in rural areas. Today, agriculture is also increasingly seen as a provider of other key developmental goals - notably food and nutrition security, but also more resilient ecosystems and climate change mitigation. Though not yet fully recognized, the potential for agriculture to help reduce poverty on a large scale is more and more linked to its ability to deliver on these other goals. However, we are only just beginning to see some convergence between discourses on agricultural development focused on poverty reduction and food security, on the one hand, and discourses on “green growth”, environmental sustainability, and climate change mitigation, on the other.

Meanwhile, agriculture is less and less a sufficient basis for the livelihoods of all those people who rely on it across the developing world. This is partly a result of a shrinking and impoverished natural resource base, and partly due to population growth. Particularly in some regions, most very poor people continue to live in rural areas, and rural poor women and men are disproportionately represented among the undernourished. While this will likely not be true a few decades ahead, today agriculture remains the main livelihood strategy, or at least an important complement to other strategies, for the majority of these people. Decades of public and private underinvestment in agriculture are indeed one important reason why poverty remains widespread and entrenched in many rural areas. Another important reason is inadequate investment in rural services and infrastructure and in the capabilities of poor rural women and men. Increasingly, rural poverty is also associated with failure to address old and new risks and vulnerabilities affecting rural areas and agriculture.

What do the food price crises add to this picture? Essentially, they point to a growing global supply-demand imbalance against the background of rapid, on-going transformation in agricultural markets around the world. This entails both challenges and opportunities to boost agricultural growth for poverty reduction. The challenges are linked to increasing risk of marginalization of poor rural people in agricultural markets, which are changing fast to cater to growing demand in high-value sectors and in urban areas. They relate to risks of poor households losing their rights over natural resources, as these acquire greater market value. Challenges are also linked to increasing pressure on the productive capacity of small farmers, caught between more difficult natural environments and more demanding markets. They are, finally, related to the growing

vulnerability of rural livelihoods to new risks and shocks, including food price spikes. The same environment however offers new important opportunities. These are primarily related to growing demand for agricultural goods and services, and to the growing interconnection and “thickening” of markets that is intensifying in response to this. They are also linked to the (albeit slow) emergence of financial and non-monetary rewards for services linked to improved management of ecosystems. Finally, the increased prominence of food and nutrition security on policymakers’ agendas offers an opportunity to boost support to agriculture to reduce poverty on a significant scale.

Against the backdrop of the crises, one critical question<sup>2</sup> that policymakers tackling rural poverty must address is the following: *how to support poor rural women and men in sustainably meeting growing market demand around agriculture, while strengthening resilience to risk and shocks, and with greater focus on food and nutrition security?*

Clearly, this question cannot be addressed only through policy responses. However, finding the right policy solutions is a critical precondition for success. Policies are needed to create an enabling environment for investment in agriculture and the nonfarm economy. A comprehensive policy agenda is also needed to sustain poor rural women and men to shift to a new brand of agriculture that is more productive, sustainable and resilient, to meet growing demand while better withstanding environmental changes and contributing to redress them. Finally, there is need for policies to mitigate the risks rural people face and reduce their vulnerabilities. The crises point, in particular, to the importance of sustained food and nutrition-centred safety net programmes<sup>3</sup>, and of policy initiatives to reduce risk in four key areas (financial services, securing natural resource entitlements, agricultural R&D and innovation, and farmers’ organization). All this requires joint action across ministries, levels of government, and stakeholder groups. It requires a focus on agriculture, but in the broader context of improving the economic and social environment of rural areas, mitigating the risks poor rural people face, and nurturing their capabilities so they can be lead actors in overcoming poverty.

### **Rural poverty, rural livelihoods, and agriculture**

According to the IFAD Rural Poverty Report 2011, 1 billion people among those living on less than 1.25 dollars a day are rural.<sup>4</sup> Despite rapid urbanization being underway across

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<sup>2</sup> Other critical questions concern creating opportunities in the non-farm rural and urban economies for rural poor people, harnessing migration flows to boost inclusive growth. These are critical questions already today for millions of people. However, given the narrow topic of this paper they are not addressed here.

<sup>3</sup> Safety net programmes may include non-contributory transfers of cash or food, which may be unconditional or be delivered upon condition that children are kept in schools, that work is undertaken in exchange, that medical checkups for infants and children are performed regularly, or other. They are generally targeted to specific population groups meeting specific criteria. Some non-targeted or difficult to target types of initiatives, such as food subsidies, may also be considered as safety nets but they are not dealt with as such here.

<sup>4</sup> International Fund for Agricultural Development (IFAD). 2010. *Rural Poverty Report 2011: New realities, new challenges: new opportunities for tomorrow's generation*. Rome: IFAD

the developing world, a majority of poor people will continue to be rural in the next decades. The picture is however different across regions and countries, both in terms of urbanization and the relative share of rural and urban populations among the very poor. In Latin America and the Middle East, most poor people live in urban areas. Over three quarters of people living below 1.25 dollars a day are instead rural in sub-Saharan Africa, South Asia, and South East Asia. In the second half of the 2000s over 80 per cent of those living in extreme poverty in South Asia were rural.<sup>5</sup> In addition, about a third of the rural population of developing countries live below 1.25 dollars a day, and more than 60 per cent live on less than 2 dollars a day. In sub-Saharan Africa, over 60 per cent of rural people live in extreme poverty, and nearly 90 per cent live under 2 dollars a day.<sup>6</sup>

Looking at poverty as a multidimensional problem does not yield a rosier picture: across the developing world, rural areas are at a disadvantage when it comes to services and infrastructure of critical importance for development, from energy to roads, from drinking water to sanitation, from healthcare services to education. For instance, over 1.6 billion people are reported to lack access to electricity, the vast majority of them in rural areas.<sup>7</sup> Only a couple of years ago, UNDP estimated that the number of people lacking access to electricity and modern fuels was expected to grow in many countries, notably least developed countries and in sub-Saharan Africa, with major impoverishment impact particularly on rural women<sup>8</sup>. Rural children all over the developing world also have less access to good quality education opportunities or less of a chance to stay in school than their urban peers, and rural girls less than boys.<sup>9</sup> The same can be said about access to healthcare, financial services, and opportunities for political participation. To no small extent, spatial inequalities underlying rural poverty result from relative neglect of rural areas, rural people, and rural economic sectors in public policies and investments – what is sometimes referred to as an “urban bias” in public policy. Weak human and collective capabilities and the fragmentation of agricultural production systems, on the other hand, weaken the ability of poor rural people – especially women and minority groups - to demand greater policy attention.

Poor rural households today often have diverse sources of income, although livelihood diversification is unequally prevalent across regions – most prevalent in Latin America and Asia, least in sub-Saharan Africa. In India, for instance, almost one third of the rural

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<sup>5</sup> Ibid, p. 47.

<sup>6</sup> Ibid.

<sup>7</sup> M. Carr and M. Hartl. 2010. *Lightening the load. Labour saving technologies and practices for rural women*. Rome: IFAD

<sup>8</sup> United Nations Development Programme (UNDP). 2009. *Energy in national decentralization policies. A review focusing on Least Developed Countries and sub-Saharan Africa*. New York: United Nations

<sup>9</sup> United Nations Educational, Scientific, and Cultural Organization (UNESCO). 2010. *Education for all global monitoring report: Reaching the marginalized*. Paris: UNESCO; and United Nations. 2010. *The Millennium Development Goals report*. New York: United Nations.

labour force is the rural nonfarm economy, mostly in casual employment, with salaries that are typically higher than in agriculture, but generally not sufficient – or sufficiently stable – to exit from poverty<sup>10</sup>. However, the majority of poor rural households still have livelihoods that rely on agriculture – as a source of income, as a risk-mitigating strategy, or as a source of food and other items for household consumption.<sup>11</sup> Depending on household gender roles and on existing economic opportunities, different activities in or outside agriculture may be more important for poor rural women or for men. In general, women are estimated to be about half of the agricultural labour force in sub-Saharan Africa and East Asia.<sup>12</sup> However, in some regions they are prominently represented among non-farm workers, for instance in processing and other activities in agricultural supply chains. Going forward, as noted, less and less households will be able to make a living entirely based on agriculture, due to population growth and a shrinking resource base. However, in some regions, notably sub-Saharan Africa, non-farm rural or urban opportunities that may absorb a growing labour force may remain vastly insufficient in the near future. In these areas, tapping agriculture to provide opportunities for inclusive, job-rich growth is likely to remain a priority for many years to come.

In parts of the world where rural poverty is more prevalent (notably sub-Saharan Africa) or where poor rural people are more numerous (notably South Asia), the overwhelming majority of agricultural holdings are small (and they are often getting smaller and smaller), and the main production system is based on family labour.<sup>13</sup> Smallholder agriculture however includes a variety of farming practices in diverse landscapes and on a diverse resource base. It includes not only crop farming but also livestock production, artisanal fishing and aquaculture, and forestry. It encompasses the production of food, fiber, fuel, medicinal products, and other goods and services with monetary or non-monetary value. In a context of growing global preoccupation with food security and food prices, it is important to note that up to 80 per cent of food consumed in Asia and sub-Saharan Africa is produced on small farms, which however host about half of the undernourished in the world.<sup>14</sup>

By and large, poor smallholder farmers (especially women farmers) operate on a limited asset base in terms of land and other natural resources, equipment, and financial capital,

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<sup>10</sup> Himanshu, P. Lanjouw, A. Mukhopadhyay, and R. Murgai. 2010. "Non-farm diversification and rural poverty decline: A perspective from Indian sample survey and village study data". A paper prepared for the World Bank-SPIA – UC Berkeley conference "Agriculture for Development – Revisited". UC Berkeley 1-2 October 2010.

<sup>11</sup> IFAD 2010.

<sup>12</sup> Food and Agriculture Organization of the United Nations (FAO). 2010. *State of food and agriculture 2010-11. Women in agriculture: closing the gender gap for development*. Rome: FAO

<sup>13</sup> However, among the about 500 million farms of less than 10 hectares, or the about 450 million below 2 hectares, not all are farmed entirely with family labour, and family farms can be much larger than 10 hectares in parts of the world, notably Latin America.

<sup>14</sup> P. Hazell, C. Poulton, S. Wiggins, and A. Dorward. 2007. *The future of small farms for poverty reduction and growth*. Washington, DC: IFPRI

with inadequate access to agricultural technology, extension and advisory services, inputs, services, and markets.<sup>15</sup> Both as citizens and economic actors, they suffer from the underdeveloped state of rural infrastructure and services, as well as from unequal opportunities for political participation and limited visibility in policy debates.<sup>16</sup> As agricultural producers, they are often negatively affected by lack of an enabling environment for investment and for their small entrepreneurial activities, poorly organized and highly asymmetrical agricultural markets, and high transaction costs associated with market access and participation – especially when it comes to urban and modern retail markets<sup>17</sup>. This is not to deny that in some countries smallholders and agricultural workers are quite active in modern supply chains serving domestic or export markets (e.g. for horticultural products in China and some African countries), often with positive impact on poverty.<sup>18</sup> However, in many areas the development of modern supply chains, in an environment generally characterized by weak market institutions and infrastructure, has not occurred in ways broadly inclusive of smallholders.

Given the centrality of agriculture in the livelihoods of poor rural people, it is not surprising that economic growth in this sector tends to generate the greatest benefits for poor people, particularly in low income countries. One source shows that growth in agriculture is up to 3.4 times more effective at reducing extreme poverty than growth in other sectors<sup>19</sup>. Other sources state that growth in agriculture – especially smallholder agriculture, and especially where land ownership is more equal– is at least twice as beneficial to the poorest people than growth in other sectors.<sup>20</sup> In recent decades, countries where vast progress has been made in reducing extreme poverty – e.g. China, Viet Nam, and other countries in East and South-East Asia – are ones where smallholder agriculture has played a major economic role.<sup>21</sup> In recent times, agriculture has played an important role in growth and poverty reduction also in some African and Latin American countries, such as Ghana and Brazil. Agricultural development has also been

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<sup>15</sup> IFAD. 2011. "IFAD Strategic Framework 2011-2015: Enabling poor rural people to improve their food security, raise their incomes and strengthen their resilience." At [www.ifad.org](http://www.ifad.org)

<sup>16</sup> B. Prato. 2009. "How can small farmers and poor rural people actively participate in policy processes?" Unpublished background paper for the IFAD Rural Poverty Report 2011, Rome, IFAD.

<sup>17</sup> Vorley, B. and F. Proctor, Eds. 2008. *Inclusive Business in Agrifood Markets: Evidence and Action. A report based on proceedings of an international conference held in Beijing, March 5–6, 2008*. London: IIED; Berdegué, J.A., E. Biénabe and L. Peppelenbos. 2008. *Keys to inclusion of small-scale producers in dynamic markets. Innovative practice in connecting small-scale producers with dynamic markets*. London: IIED

<sup>18</sup> J. Swinnen with M. Maertens and A. Vandeplas. 2010. "Governance and smallholder farmer competitiveness in high value food chains" A paper prepared for the World Bank-SPIA – UC Berkeley conference "Agriculture for Development – Revisited". UC Berkeley 1-2 October 2010.

<sup>19</sup> L. Christiaensen, L. Demery, and J. Kuhl. 2010. "The (evolving) role of agriculture in poverty reduction: An empirical perspective." Working Paper 2010/36. United Nations University – World Institute for Development Economics Research, Helsinki.

<sup>20</sup> For instance, FAO. 2009. "How to feed the world in 2050". A paper prepared for FAO High-Level Conference on Feeding the World in 2050

<sup>21</sup> For instance, rural poverty rates declined from 76 to 12 per cent between 1980 and 2001 in China (S. Chen and M. Ravallion. 2007. "Absolute poverty measured for the developing world, 1981-2004." *Policy Research Working Paper Series 4211*. World Bank, Washington DC), driven by a combination of policies boosting agricultural production, while rural poverty declined from 64 to 34 per cent in India between 1967 and 1986.

instrumental in reducing the number of the hungry in these and other countries – from 303 million in 1979-1981 to 122 million in 2003-2005 in China, or from 262 to 231 million during the same period in India.<sup>22</sup> It has enabled such achievements by increasing food availability through improved supply, improved nutrient quality, increased farmer incomes, and lower food prices for poor urban consumers.

Many success stories of growth and poverty reduction driven by agriculture are linked to the history of the “green revolution” in the 1970s and 1990s. Central to green revolution approaches was the popularization in several Asian and Latin American countries in particular of a combination of improved seeds and crop and livestock varieties, increased use of agrochemicals, land tenure reforms, price management policies, and public investment in rural and agricultural infrastructure (irrigation, roads)<sup>23</sup>. Today, many call for a replication or extension of these approaches to areas where the green revolution did not reach – notably in much of Africa. However, green revolution approaches to agricultural intensification have shown their limits in various respects – environmental and social in particular. In many areas, notably in Asia, mainstream agricultural intensification practices have contributed to land and water degradation. Across regions, growth in yields based on green revolution packages has slowed down or reached a plateau. Also importantly, the leading role of the public sector in boosting agriculture under the green revolution, and some of the policies that different governments implemented in that context (notably concerning price stabilization and marketing), do not always lend themselves to easy replication in today’s circumstances.

There is vast agreement among analysts on the need to scale up investments in agriculture to move beyond the green revolution, to continue on its path in terms of R&D and technology dissemination, but also to further a new agenda for sustainability and resilience. There is also agreement that both public and private investment are needed, given the magnitude of the task at hand and the fact that most investment in agriculture is anyway private- coming in particular from farmers - though it requires synergetic public investments and policies. Today, investment in agriculture is vastly inadequate in many developing countries. One estimate of the needed additional public investment in agriculture for meeting MDG 1 amounts to USD 14 billion a year from 2008 to 2015<sup>24</sup>. It is harder to estimate the needed investments *around* agriculture, i.e., in a range of sectors that agriculture needs in order to deliver on reducing poverty. However, beyond specific figures it is clear that more resources need to go both in and around agriculture to make a sizeable dent in rural poverty, and to do so sustainably and lastingly.

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<sup>22</sup> D.J. Spielman and R. Pandhya-Lorch, Eds. 2009. *Millions Fed: Proven successes in agricultural development*. Washington, DC: IFPRI.

<sup>23</sup> IFAD 2010.

<sup>24</sup> S. Fan and M. Rosegrant. 2008. “Investing in agriculture to overcome the world food crisis and reduce poverty and hunger” Policy Brief, IFPRI, Washington, DC.

Policymakers have critical roles to play in making this possible – both by making possible public investments in specific areas, and by designing, implementing, and effectively enforcing enabling policies for private investors to invest more effectively and in ways conducive to reducing poverty on a large scale.

### **The recent price crises and smallholder farmers in the developing world**

After about three decades of relatively stable, often artificially low food prices, global food markets have experienced a resurgence of volatility, accompanied by two significant price spikes since 2006. The first global price hike took place in 2007-2008, it affected virtually all internationally traded food commodities, and it was followed by a relative stabilization of prices on higher levels than in previous years. The more recent price spike began in mid-2010 and it has so far (May 2011) been building up more unevenly in developing countries and across commodities. In both cases, the surge of food prices in international markets has been variously transmitted to domestic markets, and it had combined in various ways with national and local factors shaping prices.

While an analysis of the factors behind the price hikes is beyond the scope of this short paper, two of these are particularly worth emphasizing because they are important aspects of the new environment facing policymakers tackling rural poverty. These are a growing imbalance between demand and supply of food and other agricultural products, and supply shocks related to extreme weather events. Other contingent factors have played a role – e.g. dollar depreciation, a decline in global cereal stocks, rising oil prices (also contributing to growing biofuel production), misguided trade policies, and the financialization of food commodities. However, the first two underlying factors are part of a longer-term change in the environment for agriculture, with which policies for rural poverty reduction must increasingly reckon. On the one hand, poverty reduction strategies must aim to harness new opportunities for poor rural producers to contribute to rebalancing food supply and demand on national and global markets, in the process enabling agriculture to boost inclusive economic growth. On the other hand, this requires agriculture to be better adapted to a scarcer and more unpredictable environment.

The balance of the impact of the price hikes in terms of poverty and hunger has been negative in both spike periods. During the 2007-2008 crisis, it was calculated that about 105 million people had been added to the fold of the very poor.<sup>25</sup> By 2009, FAO estimated that as many as 115 million had been added to the fold of the hungry, raising their total number above one billion.<sup>26</sup> Though the current price hike has not ended,

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<sup>25</sup> M. Ivanic and W. Martin. 2008. "Implications of higher global food prices for poverty in low-income countries". *Agricultural Economics* 39 (s1).

<sup>26</sup> FAO and WFP. 2009. *The state of food insecurity in the world. Economic crises: impacts and lessons learned*. Rome: FAO



some calculations of its poverty effects have been made. The World Bank places the net figure of people that have fallen below the extreme poverty line as a result of the price spike between mid- and end of 2010 around 44 million people – resulting from about 67.7 million falling into poverty and 24 million rising above the poverty line, based on extrapolations of data from 40 countries.<sup>27</sup> During both crises, poor households have resorted to consumption of less, or less nutritious food. The result has been increased hunger and malnutrition, often affecting particularly poor women and children.

While the income-related effects of the price spike may be short term, they show the precariousness of urban and rural livelihoods just above the poverty line in a context of food price volatility. Traditionally, crossing the line upwards tends to be a slow process, while crossing it downwards can occur suddenly, as a result of a shock (e.g. a harvest failure, an extreme weather event, etc.)<sup>28</sup>. What the food price crises suggest is that sudden increases in food prices can be major shocks with impoverishing effects for rural individuals and entire households, especially if the increases are large and protracted. While the direct income effect may be short-term, moreover, the impact of food security and malnutrition on poverty may be long-lasting, especially when higher prices result in poorer nutrition among children.<sup>29</sup>

When it comes to poor rural people with livelihoods based on agriculture, it may be expected that they would generally benefit from higher food prices. After all, small farmers across the developing world have suffered the impact of artificially low food prices on their incomes and investments for decades. However, most poor farmers in the developing world are net food buyers. This does not necessarily mean that they sell less food than they buy, but rather that they make less money selling food than they make buying it. Addressing the reasons why most small farmers are net food buyers is critical for rural poverty reduction through agriculture. Being net sellers or buyers is indeed the main discriminating factor between losers and winners from the recent price surges, according to the already cited recent World Bank study.<sup>30</sup> Unfortunately, the reasons why most small farmers are net food buyers are often not simple. They often have to do with low land, labour, or capital productivity at the farm or household level. They may also have to do with poor access to financial services -inhibiting investment or forcing farmers to sell all of their surplus at times when market prices are unfavourable. Other reasons have to do with poor storage capacity at household or community level, again prompting early sales as well as leading to significant post-harvest losses. Very often, they have to do with limited and costly access to markets due to the poor state of rural

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<sup>27</sup> M. Ivanic, W. Martin, and H. Zaman. 2011. "Estimating the short-run poverty impacts of the 2010-11 surge in food prices." World Bank Policy Research Working Paper 5633, April 2011.

<sup>28</sup> IFAD 2010.

<sup>29</sup> World Bank. 2006. *Repositioning nutrition as central to development*. Washington, DC: World Bank.

<sup>30</sup> Ivanic, Martin, and Zaman 2011.

infrastructure and of poor governance of existing infrastructure (notably roads). Weak bargaining power with market intermediaries is also a critical factor.

What has also been observed during the recent food price crises is that price volatility, which includes greater unpredictability of prices as well as price spikes, hinders a proper response from small farmers to price increases, hurting them both as consumers and as producers. Volatility makes investment in increasing production to meet growing market demand too risky for poor farmers, especially when they have a limited asset base, little access to risk-management tools through financial markets or other mechanisms, and limited market information. Where rural infrastructure and services are inadequate, the risks of increased investment are even greater.<sup>31</sup> On the one hand, increasing market integration small farmers and rural workers is required for progress out of poverty to occur sustainably and at scale. On the other hand, today this entails being more exposed to food price volatility and other risks. These risks need to be mitigated and better managed to allow rural women and men to work their way out of poverty through agricultural markets.<sup>32</sup> This is not only important for reducing rural poverty but also to increase food availability on domestic markets, helping reduce food insecurity and vulnerability to global price spikes.<sup>33</sup>

In short, poor rural people working in agriculture hold one of the primary keys to a long-term solution to food insecurity and food supply shocks that may increase or entrench poverty.<sup>34</sup> However, both price volatility and poverty, combined with the poor state of rural infrastructure, services, and markets, and with the political marginalization of poor rural women and men, hold them back from playing this role effectively. Addressing this requires focusing more policy efforts and resources in agriculture and in rural areas and people. While much of what is needed is well known to policymakers, some additional pointers can be derived from policy responses to the recent crises - although it is early to assess the rural poverty reduction impact of specific responses.

### **Policy lessons from the crises**

The 2007-2008 crisis prompted a variety of policy and investment initiatives for food security and nutrition. International responses have included initiatives for greater donor, donor-country, and policy coordination to achieve food security, the development

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<sup>31</sup> World Bank. 2011. "Responding to global food price volatility and its impact on food security". Paper presented to the Development Committee Meeting of 16 April 2011, World Bank, Washington.

<sup>32</sup> C. Delgado, with R. Townsend et al. 2011. "Food security: The need for multilateral action.", in S. Fardoust, Y. Kim, and C. Sepúlveda (eds.). *Postcrisis growth and development. A development agenda for the G20*. Washington: The World Bank.

<sup>33</sup> B. Prato and A. Alpha. 2011. "Mitigating and better managing food price volatility – some of the implications for small farmers and rural poor people". Unpublished paper, Office of Strategy and Knowledge Management, IFAD, Rome.

<sup>34</sup> "Price Volatility in Food and Agricultural Markets: Policy Responses." A Policy Report to the G20, including contributions by FAO, IFAD, OECD, UNCTAD WFP, the World Bank, the WTO, IFPRI and the UN HLTF. 2011.

of new mechanisms to sustain larger donor investments in food security in developing countries, and other. Regional initiatives have also emerged or been re-energized by the food price crisis – the latter applying in particular to the CAADP process in Africa. At the national level, more countries have been prioritizing food security in their policies and investments. Many have also resorted to short-term safety net initiatives, or they have strengthened existing safety net programmes. Though urban populations have typically been more easily reached by such programmes, the crisis showed that rural poor people are just as in need of safety net coverage during food price hikes as urban people.<sup>35</sup>

We can distinguish policy responses and related lessons between those aiming to reduce the immediate impact of the food price crisis and those aiming to tackle its root causes, notably as concerns the imbalance between food supply and demand on global and domestic markets – where supply is not simply the result of production but of market availability and accessibility, and demand includes the ability of poor people to purchase the food they need<sup>36</sup>. Both sets of responses need to be part of comprehensive policy approaches to rural poverty reduction centred on agriculture today and in the future.

Support to agricultural production has been part of both short-term and longer-term responses to the food price crisis. The latter has prompted (as yet not well estimated) increasing public and private investments in agricultural production. Public investment has in many cases focused on increasing food production per se, and so have many forms of private investment – including large-scale land investments for food production in some countries. In some countries, public investments or incentives to private investments have been driven by a search for food self-sufficiency (e.g. this has been the case in some Asian countries like China, the Philippines, and Indonesia, as well as in some Latin American countries, some countries in sub-Saharan Africa, such as Senegal, and some capital rich and farmland-poor countries in the Gulf area for instance). Large-scale private or public-private investments in land for agriculture have also been driven by a combination of a focus on increasing production and on maximizing profit.

Increasing large-scale investment in agriculture has evidenced important policy gaps in many countries. These include weak policies and institutions protecting the land and water entitlements (and sometimes also the basic human rights) of poor rural women and men, weak business and contract laws, and inadequate governance and accountability mechanisms allowing poor rural people to articulate their interests. Some international initiatives of policy relevance for rural poverty eradication have emerged in this context – for instance around the Voluntary Guidelines on Responsible Governance

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<sup>35</sup> FAO. 2010. *FAO's Initiative on Soaring Food Prices: Guide for Policy and Programmatic Actions at Country Level to Address High Food Prices*. Rome: FAO

<sup>36</sup> G. Viatte, J. De Graaf, M. Demeke, T. Takahatake, and M. Rey de Arce. 2009. *Responding to the food crisis: synthesis of medium-term measures proposed in inter-agency assessments*. Rome: FAO.

of Tenure of Land and other Natural Resources and the Principles for Responsible Investment in Agriculture. Other initiatives concern the search for win-win institutional models of engagement between corporate actors and small farmers and workers in agricultural supply chains. This is a critical area of policy work for the future. In particular, it is of paramount importance to focus policy attention on how to harness growing private investments in agriculture to bring new needed resources and capacity to rural areas to benefit smallholders and poor rural workers, with particular attention to protecting the rights and resources of poor rural individuals and communities.<sup>37</sup>

Another important area of policy responses to the crises that have key poverty reduction implications concerns short-term support to food production. This includes, in particular, measures to boost small farmers' access to improved seeds, energy, and fertilizers. In many cases, countries have resorted to non-market based measures to achieve this goal, privileging short-term impact concerns over considerations of longer term impact on local production or rural poverty. For instance, access to fertilizer has been boosted through subsidy or free distribution programmes, sometimes with impressive short-term results on production and also on food security. Some governments have also resorted to policy measures introducing or scaling up subsidies to use of electricity or fuel for irrigation (India for instance kept in place subsidies on fertilizers, irrigation, *and* power during the 2007-2008 price spike). While the short-term impact of such measures may be positive, their sustainability given recurrent price volatility and growing environmental scarcities is debatable.

A more limited number of governments have taken a longer-term perspective, which offers more interesting policy lessons from a poverty reduction perspective. They have undertaken to strengthen their national seed industries through support to seed production, building up improved seed buffer stocks, strengthening seed quality control and related institutional capacity. Some have strengthened or put in place new farmer-based seed multiplication initiatives to maximize participation of smallholders. In some cases, there have been initiatives specifically geared towards supporting private sector agro-dealers to better reach out to smallholders with seeds and fertilizers.<sup>38</sup> In yet other countries, the crises have prompted new public investments in rural infrastructure (storage, irrigation, energy). In a still limited number of countries, multi-stakeholder platforms have been set up to bring public and private sector representatives together to develop large-scale investment plans to boost agricultural supply, reduce poverty, and enhance food and nutrition security (e.g. through growth corridors or by developing specific value chains). All such measures are part of the needed policy changes to put in

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<sup>37</sup> See L. Cotula and R. Leonard, eds. 2010. *Alternatives to land acquisitions: Agricultural investment and collaborative business models*. London/Bern/Rome/Maputo: IIED/SDC/IFAD/CTV.

<sup>38</sup> Ibid.

place better functioning markets for agriculture, which can benefit poor rural people in the short and longer term. Such measures are central to a policy agenda aiming to harness changes in global agricultural markets to make progress in eradicating poverty.

The importance of investing in more sustainable and resilient agricultural production to stabilize supply and avoid food price crises, particularly vis-à-vis severe weather events, has also become acutely evident during the price spikes. Against the background of climate change, such events are expected to become more frequent in many parts of the world. The implications for rural poverty are multi-fold – severe weather events may disrupt infrastructure and markets, undermine livelihoods, destroy or damage assets. They may undermine agricultural supply both by affecting production and by making transportation from surplus to deficit areas more costly or difficult. The poverty implications can be both immediate and long-lasting. Making rural livelihoods less vulnerable to such shocks is a policy priority to eradicate poverty going forward. When it comes to agriculture, this sets out an agenda of more sustainable agricultural intensification, climate change adaptation, and risk-mitigation, as articulated in many recent publications.<sup>39</sup> Effective policy work in this area needs to engage agriculture ministries together with other relevant offices, climate and environmental offices, ministries of finance, and yet others. Ministries of education need to play a critical role in this agenda, as sustainability and resilience very much depend on strengthening the capabilities of small farmers – women and men, and young people in particular - to deal with more challenging environmental and market circumstances.<sup>40</sup>

Another important set of policy measures through which governments have sought to address the price crises concerns trade policies and policies meant to affect local markets. The former have included trade restrictions, tariff reductions, and subsidies to trade. The latter have included price setting, passing new legislation and measures to discourage hoarding or to encourage market operators to mitigate price swings, and public or public-private food marketing.<sup>41</sup> This is a critical area for policy attention going forward because it is one in which short-term conflict of interests between different social groups may easily emerge. Often designed to pacify urban consumers, who are

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<sup>39</sup> For instance, this agenda is laid out in IFAD 2010, in the International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD), and in the 2011 Foresight Report on Global Food and Farming Futures.

<sup>40</sup> IFAD 2010

<sup>41</sup> For instance, a 2009 FAO review of country responses to the 2007-2008 crisis found that, out of 81 sampled countries, 43 had resorted to reduction of tariffs or custom fees, while 35 had resorted to public sales from public stocks or imports. The review found that such responses had, in many cases, positive short-term impact in terms of minimizing the poverty and food insecurity impacts of the price hike, but they also posed problems in terms of economic or financial sustainability. About 25 sampled countries resorted to export bans, and 21 countries enforced price controls, either through single-handed government action or through agreements with the private sector (e.g. in Mexico, Burkina Faso, and elsewhere) to prevent local price hikes. See M. Demeke, G. Pangrazio and M. Maetz. 2009. *Country responses to the food security crisis: Nature and preliminary implications of the policies pursued*. Rome: FAO.

typically better able to vocally express discontent to policymakers and to media outlets, trade and market measures that aim to depress or fix prices can benefit poor consumers in the short term. However, such policies tend to undermine both short and longer-term prospects for domestic food security and for poverty reduction through agriculture. Increasingly, it is of paramount importance to achieve a policy balance between shielding poor consumers (both rural and urban) and enabling poor food producers to seize the opportunity linked to higher prices to overcome poverty.

Rather than trade restrictions and similar policies, policy initiatives targeted to poor people that can help achieve such a balance include safety net programmes that reduce people's vulnerabilities rather than altering market signals. There is evidence that such programmes, if well targeted and managed, can have significant impact on reducing income inequalities – for instance, this has been the case of conditional cash transfers in countries like Brazil, Chile and Mexico. A variety of safety net initiatives have been undertaken in response to the recent price crises, with a focus on improved access to food and nutrition.<sup>42</sup> In some cases, these have built on pre-existing programmes. Where they have, safety net interventions have often been rather effective in buffering the effect of the price crisis in 2007-2008, demonstrating the importance of maintaining well-targeted safety net programmes that can be scaled up or adjusted quickly during crisis periods. This was for instance the experience of the conditional cash transfer programme Oportunidades in Mexico. However, in the developing world as a whole the coverage of safety net programmes is very low, particularly in countries with limited fiscal resources. How to develop sustainable financial bases for such programmes should be a major issue on the agenda of policymakers now and in the near future.

In addition, the recent crises have demonstrated the importance of putting rural areas and rural people high on the policy agenda when it comes to social protection and safety net programmes. They have demonstrated this not only for food security and nutrition reasons, but also for enabling people to overcome poverty or to preserve their livelihoods once they have crossed the poverty line upward. IFAD surveys among smallholder communities in various countries in 2009 and again in 2011 show that smallholder households tend to respond to price hikes not only by changing their nutrition patterns and cutting down on welfare expenditures, but also by altering their production patterns – taking less risks, often producing less for the market and more for their own consumption, selling key productive assets, and so forth. All such coping mechanisms can entrench poverty among small farmers, and they can also drive into poverty those who live just above the poverty line. On the other hand, where

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<sup>42</sup> For instance, Demeke et al. 2009 report that 23 countries out of 81 sampled ones used cash transfers, 19 used direct food assistance, and 16 used a variety of measures to increase the disposable income of poor people, to dampen the effect of the 2008 price spike on vulnerable people.

smallholder households are covered by adequate safety net programmes (as in the cases of many rural households in Mexico, Brazil, and elsewhere), this is less likely to happen.

Going forward, and given an increasingly unstable natural and market environment, investing in adequate safety net programmes targeted to include smallholder households is a policy priority in many developing countries. However, in order to combine food security achievements with rural poverty reduction, a critical issue in relation to such programmes is how the interests of different constituencies are balanced. For farmers, incentives to produce more and better food for the market, and to do so on more sustainable grounds, need to remain in focus even in the context of safety net programmes. For policymakers the models to draw inspiration from are those that combine support to food supply capacity with support to solvent demand among poor people – programmes that source from small farmers for school feeding and other social programmes, such as those implemented on a large scale in Brazil and elsewhere in recent years, are a good example. Other lessons can be drawn from the WFP's Purchase for Progress programme and initiatives combining production-focused safety net (e.g. fertilizer or seed vouchers for farmers) with food and nutrition assistance.

Finally, a key policy lesson from the crises is the need to strengthen the risk management capacity of small farmers. Four areas appear to deserve particular policy attention in this regard, in light of the crises. These are: financial services, securing natural resource entitlements, agricultural R&D and innovation, and organization. For instance, an enabling policy environment is needed for financial institutions to develop and reach out to rural poor women and men with a range of products (savings, credit, insurance, remittance transfer) and inclusive modalities, and for them to develop new products suited to meeting new challenges (e.g. index insurance). Securing small farmers' natural resource entitlements requires improved land and water policies and strengthened capacity for implementation and for conflict management, allowing the participation of small farmers and poor communities. Enabling policies are also needed to bring together public and private actors to pursue an R&D and technology dissemination agenda for more sustainable and resilient production, post-harvest processing and marketing, and to ensure that the results meet the needs of both women and men farmers. Finally, organization is critical for risk-spreading and risk management, but effective farmers' organizations require good governance and specific enabling policies – e.g. concerning group formation and registration, cooperative laws, group access to financial services, and group marketing. The needed policy agendas are to be developed in context. Everywhere, however, the challenge is to join efforts among stakeholders, to put political commitment behind these agendas, and to link them more explicitly to the potential of agriculture to contribute to poverty eradication.

## Conclusions

In conclusion, the food price crises have highlighted the vulnerability of poor rural people's livelihoods to price volatility and price shocks, and placed food and nutrition security at the centre of any viable strategies for eradicating rural poverty. They have also highlighted the inadequacy of global and domestic food systems that keep a large number of people – including hundreds of millions of small food producers – in conditions of chronic undernourishment or malnutrition, and that prevent these food producers from contributing to a stronger and more stable food supply.

It is generally agreed today that overcoming the crises and their impact on poor and vulnerable people requires a combination of short-term and long-term actions, which need to include support to agriculture but also go beyond it. These actions include policy initiatives to strengthen vulnerable livelihoods in rural areas, addressing food security and nutrition as central to the poverty reduction agenda, and strengthening the capacity of smallholder farmers to overcome poverty by becoming part of the solution to global food insecurity. To recapitulate, this requires policy initiatives that span the areas of agricultural production – with a focus on greater productivity, sustainability, and resilience -, agricultural and food markets and trade, improving the overall environment of rural areas both in terms of economic and of social infrastructure and services, and putting in place adequate social protection and safety net programmes.

There is no blueprint to follow in terms of specific policies or their sequencing, as the right approach will depend on local circumstances, opportunities, and resources. However, everywhere it is critical that poor rural people be supported in their ability to overcome poverty by seizing new opportunities at reduced risk. Appropriate policy initiatives need to focus on strengthening poor rural people's capabilities as well as on facilitating the creation of opportunities. Whatever the nature of specific initiatives, a change of mindset is also in order, to see poor rural people working in agriculture not just as victims of difficult circumstances, but as part of the solution to global food security and environmental challenges underlying food price spikes and volatility. In this framework, overcoming poverty can then be the result of poor farmers operating in an enabling policy environment and supported by policies recognizing their capacity to actively contribute to meeting these challenges, today and in the longer term.