



Food Security

Overview

Australia's long-term response to improved food security in developing countries involves support for: 1) agricultural research; 2) raising the competitiveness of rural enterprises; and 3) social protection systems. This paper touches on the second area and highlights the importance of working with the private sector to achieve sustainable change. The initiatives need not be large-scale or expensive, rather skilled assistance is the key. Effective programs draw on private sector strengths combined with measures to protect and advantage vulnerable populations.

Background

Food security is the reliable availability of a sufficient quantity and quality of nutritious food for a population. It involves issues of food production, access to markets, income to purchase food and diet or nutrition. Prior to the recent crisis, several countries faced chronic food security challenges. Most countries in Sub-Saharan Africa are off track to meet the Millennium Development Goal of reduced food poverty. Countries can move into situations of food insecurity as a result of economic, political or natural shocks. These shocks result in immediate food needs and can also have a devastating long-term impact on food production and economic development.

High food prices are a type of economic shock. Food prices, in nominal terms, reached their highest level in over three decades (although real prices are comparatively low as shown in Attachment 1). High food prices have grave impacts on the poor as they spend a greater proportion of their household budget on food. Attachment 1 outlines the varied causes of the current food price crisis. Some price pressures, such as the adverse impacts of climate change on agricultural productivity, are potentially increasing over the long-term.

Inability to adapt to high food prices has highlighted market failures and a long-term decline in government support for agricultural systems. In Africa, governments can spend as little as 4% of their budgets on a sector that accounts for 60-80% of their citizens' livelihoods. Aid directed to agricultural development accounted for just 3.5% of Official Development Assistance in 2004 compared to 18% in 1979.

An appropriate short-term humanitarian response has been to increase food aid and income support to cushion the impact of high food prices. A longer-term response should address the root causes of food insecurity. For chronically food insecure countries, special measures are required including forward planning and coping strategies to deal with frequent weather shocks, conflict and weak government capacity. For all countries, international assistance should be focussed on increasing agricultural productivity. Measures to improve agricultural productivity have twin benefits of increasing rural incomes and lowering food prices, making food more accessible to the poor. A key channel for increasing agricultural productivity is through the development of markets.

Making markets more effective

Agricultural markets are among the most distorted in the world with prices affected by national and international policies. Nevertheless, donors can support national governments to stimulate efficiency in agricultural production by providing the enabling environment for well functioning markets. This includes stable macroeconomic conditions, commercial laws, land titling, financial institutions, information systems and infrastructure (such as transport and storage).

Within this environment, the private sector has a critical role to play in mobilising resources, finance and know-how for agricultural growth. As outlined by the World Bank, the private sector can: connect farmers to international supply chains; contribute to financing infrastructure; build logistical and transport systems; and assist producers meet food safety standards. In developing countries where the private sector is often embryonic and incomplete, donors can play a significant role in fostering private sector linkages.

Facilitating change

To stimulate increased agricultural productivity, donors can support programs that facilitate or broker market linkages. Along with traditional areas of public investment, such as research and development, complementary investment in marketing, distribution and associated business services is important. This applies to the introduction of any technology, product or service whether it is a new seed variety, veterinary services to cattle farmers or food processing.

We advocate 'client orientated' initiatives that focus on the end-users. This approach recognises that farmers, for example, are economic agents that respond to incentives. Cambodian rice growers under an AusAID-sponsored agricultural program managed by Cardno Acil, need to be convinced of the benefits of purchasing high quality seed rather than using farmer-saved seed. Potential suppliers need to be convinced there is a market for improved seed varieties. The project supported the start-up of a private company that is now marketing new seed varieties. The seeds are developed in Cambodia and multiplied by trained seed growers to meet local growing conditions. The market has great potential with the Government of Cambodia, ADB and FAO also expressing interest in using the company's seeds in their projects.

Zambia cattle raisers under the USAID sponsored PROFIT program managed by our sister company, Emerging Markets Group (EMG), need to be convinced that preventative veterinary care is worth paying for. In addition, veterinarians need to be convinced that they can serve smallholders profitably. The project is addressing these issues and external factors affecting the market such as restrictions on the import of certain medicines and inadequate university training for young veterinarians. The result is a thriving market in veterinary services and a marked reduction in cattle deaths from disease.

Importantly, the food sector is not limited to farmers and their inputs. It includes downstream activities such as agri-food processing (oil extraction, cereal milling, fish drying, etc). Initiatives that impact on these activities can raise food value and availability. They may also achieve other development outcomes. For instance, the food processing

sector is often a major employer of women and therefore a key source of income and women's empowerment. EMG is partnering with the Nike Foundation to increase young women's participation in proven, high-return fish and related value chains in the Lake Victoria region in Kenya. In the food processing sector, protection of the vulnerable is also important through government regulation and/or other measures. EMG has identified that young, unmarried women and orphaned girls without a protective family environment are especially vulnerable to gender-based violence. Measures to address this include the creation of safe areas for girls and minimising cash-on-hand through access to savings mechanisms.

Internationally, trade in food is increasingly being driven by global value chains. However, small suppliers and vulnerable groups can be left out of this process. Through the USAID funded COPE project, EMG is working with female caregivers of HIV orphans and vulnerable children to link in with exporters. In Uganda, women have been assisted to form a business relationship with a dried fruit firm which exports to a major supermarket chain in the UK. A complementary savings program enables the women to re-invest in their fruit drying business as well as purchase mattresses for the orphans in their care. Skills upgrading includes training in business skills and entrepreneurial methods which guide the women to learn to identify market opportunities on their own.

Designing effective programs

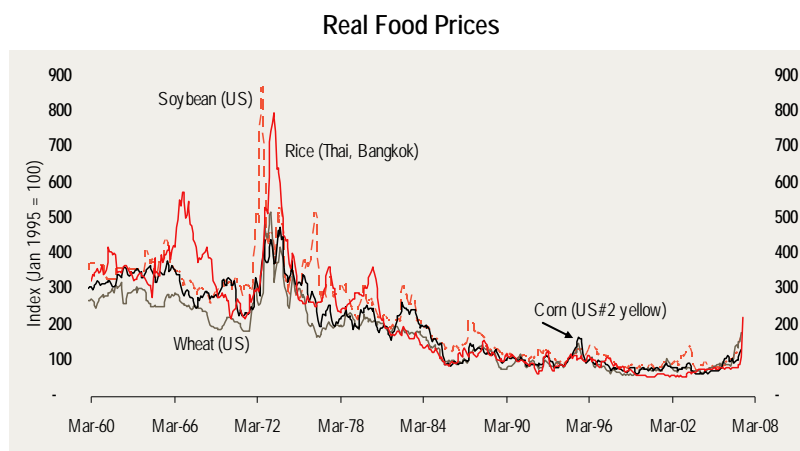
Traditional rural development programs have often been effective in the short-term but not always sustainable in the long-term. A long-term response to food security must build on the creation of incentives favourable to the production and marketing of food. Donors can support the environment for well functioning markets, facilitate linkages and the sustainable use of resources.

Some aspects of market development, such as linking farmers with buyers and suppliers, do not require large financial investments but rather highly skilled and commercial assistance. Delivering sustainable commercial upgrading strategies is difficult. The key is designing a program that facilitates the development of viable business options. The approach requires that the buyers and sellers, not outside agents, take the lead in making changes. Donor programs can assist, train, recommend and advise, but buyers and sellers must own the process of market development. By tapping into local incentives with skilled assistance, more sustainable opportunities will be generated.

Attachment 1: Food Prices

As reported by the Rural Industries Research and Development Cooperation (June 2008), over 18 months the world price of rice tripled, maize increased by two-thirds and wheat doubled. Grain is a major input into meat and dairy production and these prices also rose significantly. In nominal terms, the price of food commodities reached their highest level in over three decades.

Rapid price rises have followed a long period where food prices had become increasingly affordable. In real terms food price levels remained low (as shown in the chart below), and well below the levels recorded during the last price spike in the 1970s. Real prices, however, approached quarter century highs for rice, beef and the grain crops.



Note: Prices are deflated by IMF Special Drawing Rights (basket of key international currencies).
Source: Centre for International Economics (IMF International Financial Statistics Database)

Although the world production outlook for some food commodities is favourable (ABARE, Australian Commodities, September 2008), food prices remain high and volatile.

The causes of the food price crisis are varied and potentially growing. On the supply side, price pressures include increased input costs (oil, fertilizer), weather shocks and export bans (particularly for rice). On the demand side, factors include high demand for feedstock (grains) for meat and dairy products due to rising incomes (particularly in China and India) and maize and sugarcane for bio-fuels. Commodity market speculation and movements in the US dollar are also adding to the volatility.

The different factors are impacting on individual food products to different extents. However, common themes are rising incomes in emerging economies and the impact of climate change. It is this last factor that may fundamentally distinguish this food crisis from the 1970s. A study published by the IMF (Cline, 2007), indicates the long-term impact of global warming is a significant reduction in agricultural productivity.

Whether prices will ease significantly in the medium-term is difficult to predict. What is clear is that going forward, prices will be increasingly volatile. This reflects reduced market intervention in some cases, such as reduced stockholding by governments (particularly the EU). As a result, concerns about food security will almost certainly resurface notwithstanding some near term downward pressure in commodity prices.