Brussels Rural Development Briefings
A series of policy meetings on ACP-EU development issues

Brussels Policy Briefing no. 25

Food Price Volatility: Implications for ACP countries

30th November 2011

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Risk management strategies for smallholders and vulnerable production areas

Executive Summary

Smallholder farmers cope with and, eventually, adapt to an impressive range of uncertainties and risks; but remain vulnerable to idiosyncratic and exogenous shocks. Unfavourable agricultural terms of trade and declining real prices for agricultural commodities have been a long term constraint on agricultural investments; and food-price volatility has been part of the farm management challenges, especially for smallholders. The contributing factors of the 2008 food price surge (e.g. the financialisation of agricultural commodity prices …) have particularly accentuated this uncertainty and risk for a fragile and critical sector of the economy – critical for high-quality, inclusive, rural poverty reducing growth, as well as for food security.

While higher prices for agricultural products provide incentives for on-farm investments, incomplete (world-market) food-price transmission, production-cost inflation and asymmetries in the speed and rate of output and input price transmission constrain the supply response that could increase food availability and contain consumer prices. Because of the size, nature and structure of their business, as well as their limited “voice”, smallholder farmers are particularly exposed; and the poor predictability and information asymmetry does not help.

Smallholders, generally characterised by high factor productivity, do however mitigate and adapt to price volatility. On the input side, the adoption of sustainable agricultural practices, farm expansion (renting-in land), use of alternative energy sources, strategies for coping with increasing real wage rates, financial innovation are part of the smallholder volatility mitigation and coping strategy. In order to cope with produce market-price volatility, farmers’ strategies include: diversifying their product range with mechanisms to switch production lines and specialisation (high value crops), efficiency gains in the value chain, a range of storage strategies, innovations in contract forms, producer organisations.

While the private sector has a critical role to play, beyond social responsibility, governments have ample scope to enhance the enabling policy framework towards a pro-agriculture, producer incentives policy: price policy, market policy, energy policy, land policy, trade policy, wage policy.

Small-island economies, remote and marginalised production areas constitute a particular variant in this vulnerability problematic. Their remoteness delays the impact of market volatility, but their capacity to adjust to lagged shocks is constrained by a narrow resource base and limitations in strategy choices. However, the impact is disproportionately high, calling for innovations and adjustments (localised solutions) in the above coping strategies.

The presentation at the Brussels Briefing no 25 will elaborate on these strategies and their diversity, to conclude with policy recommendations.