

INITIATIVE ON SOARING FOOD PRICES



**Country responses to the food security crisis:
Nature and preliminary implications of the policies pursued**



**FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS**

**Country responses to the food security crisis:
Nature and preliminary implications of the policies pursued**

Initiative on Soaring Food Prices

Country responses to the food security crisis: Nature and preliminary implications of the policies pursued

By Mulat Demeke, Guendalina Pangrazio and Materne Maetz
of the Agricultural Policy Support Service, FAO

Supported with funds from the Government of the Kingdom of Spain

The designations employed and the presentation of material in this information product do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

All rights reserved. Reproduction and dissemination of material in this information product for educational or other non-commercial purposes are authorized without any prior written permission from the copyright holders provided the source is fully acknowledged. Reproduction of material in this information product for resale or other commercial purposes is prohibited without written permission of the copyright holders.

© FAO 2009

TABLE OF CONTENTS

- 1. Introduction5**
- 2. Market and trade policy measures to reduce prices for consumers.....6**
 - 2.1 Releasing food stock to the market6
 - 2.2 Reducing tariffs and VAT8
 - 2.3 Controlling prices9
 - 2.4 Restricting export10
- 3. Safety net measures11**
 - 3.1 Cash and food transfers11
 - 3.2 Three examples of targeted safety net measures13
 - (i) Conditional cash transfer – Mexico’s Progresas/ Oportunidades13
 - (ii) Food based assistance – Bangladesh’s PFDS15
 - (iii) Employment based safety net program – Ethiopia’s PSNP16
- 4. Producer oriented measures.....18**
 - 4.1 Production support measures in developing countries19
 - 4.2 International support21
- 5. The macroeconomic implications and food price impacts of the policy responses ..21**
 - 5.1 The macroeconomic cost implications21
 - 5.2 Achievements in bringing domestic food prices down22
- 6. Response to the crisis: a change of paradigm?24**
- Annexes29**

List of Acronyms

ADMARC	Agricultural Development and Marketing Corporation (Malawi)
ARTF	Anti-Rice-Hoarding Task Force (The Philippines)
CCT	Conditional Cash Transfer
CFSAM	Crop and Food Security Assessment Mission
DFID	Department for International Development (UK)
FAO	Food and Agriculture Organization
FCI	Food Corporation of India
GDP	Gross Domestic Product
GIEWS	Global Information and Early Warning System
GMS	Greater Mekong Sub-region
IFDC	International Fertilizer Development Center
IFPRI	The International Food Policy Research Institute
IMF	International Monetary Fund
IRIN	Integrated Regional Information Networks
ISFP	Initiative on Soaring Food Prices
LAC	Latin America and the Caribbean
MDG	Millennium Development Goal
NFSR	National Food Strategic Reserve
NGOs	Non Governmental Organizations
OCHA	Office for the Coordination of Humanitarian Affairs
PFDS	Public Food Distribution System (Bangladesh)
PSNP	Productive Safety Net Program
SADC	Southern Africa Development Community
SFP	School Feeding Programs
TCP	Technical Cooperation Programme (FAO)
TSF	Targeted Supplementary Food
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	U.S. Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
WFP	World Food Programme
WTO	World Trade Organization

Country responses to the food security crisis: Nature and preliminary implications of the policies pursued

1. Introduction

The downward trend of real food prices for the past 25 years came to an end when world prices started to rise in 2006 and escalated into a surge of price inflation in 2007 and 2008. Prices of staple foods, such as rice and vegetable oil, doubled between January and May 2008. The upturn coincided with record petroleum and fertilizer prices. For low-income and highly import-dependent countries, higher food prices and a larger import bill have become a major challenge, particularly for those with limited foreign exchange availability and high vulnerability to food insecurity¹. High food prices, in combination with high and volatile petroleum prices, have the potential of spurring inflationary pressures, competing for public expenditures intended for alleviating poverty or meeting MDG targets, and fuelling political unrest. Poorer households with a larger share of food in their total expenditures are suffering the most from high food prices, due to the erosion of purchasing power, which has a negative impact on food security, nutrition and access to school and health services.

A number of factors have contributed to raising food prices. On the demand side, food consumption expanded rapidly in developing countries as a result of strong global economic growth in 2004-07². A dietary transition from cereals toward more animal protein has also increased demand for feed crops, such as maize, in emerging economies. Demand for non-food agricultural products, such as timber and fiber, has also increased sharply. By contrast, the supply of food and agricultural products slowed due to stagnation in area under cultivation and yield, as well as low investment. Bad weather reduced production levels in many important exporting countries, notably Australia (one of the major wheat exporters), over the last two years. World cereals stocks as a proportion of production also declined to one of their lowest levels in recent years, exacerbating the crisis. Besides the high oil prices, which resulted in higher food production and transport (including freight) costs, the weak dollar, speculative activities and trade policies also contributed to high food prices.

Policies in response to rising food prices have included a series of immediate short-term measures. These can be grouped into three main groups:

- Trade-oriented policy responses that use policy instruments, such as reducing tariffs and restricting exports to reduce prices and/or increase domestic supply;
- Consumer-oriented policy responses that provide direct support to consumers and vulnerable groups in the form of food subsidies, social safety nets, tax reductions and price controls, among others; and
- Producer-oriented policy responses intended to support farmers to increase production, using measures such as input subsidies and producer price support.

The objective of this paper is to examine the short-term measures adopted by some 81 countries from Asia, Africa and Latin America and the Caribbean and assess their implications for food security and poverty alleviation. Section 2 reviews market and trade measures aimed at reducing food prices for consumers. Safety net and production support measures are discussed in sections 3 and 4, while section 5 discusses the impact of the different measures. Finally, concluding remarks are given in section 6.

¹ <http://www.ers.usda.gov/AmberWaves/February08/PDF/RisingFood.pdf>.

² Strong global growth also resulted in booming commodity prices. In particular, oil prices rose sharply, from USD30 per barrel in early 2003 to around USD140 by end-June 2008 (IMF, Food and Fuel Prices—Recent Developments, Macroeconomic Impact, and Policy Responses, June 30, 2008, www.imf.org/external/np/pp/eng/2008/063008.pdf).

The analysis is based on data from weekly reports filed by FAO Representatives in Member countries, assessment reports conducted by FAO in collaboration with other agencies (e.g. WFP, World Bank, IFAD and others), reviews and notes prepared by national or international agencies, as well as press reports.

2. Market and trade policy measures to reduce prices for consumers

Based on information obtained from 81 countries, the two most widely applied market and trade policy measures are reduction of tariffs or custom fees, as reported by 43 countries, and selling grain from public stocks or from imports, as reported by 35 countries (see Table 1). Reducing tariffs is among the easiest measures to implement. Countries with reserve stocks have been able to respond more quickly and cheaply than those with limited or no reserves. Some 23 countries suspended or reduced VAT and other taxes, while 25 countries restricted or banned exports. Price controls were reported in 21 countries, with 10 of these in Africa. A number of countries have applied two, three or even four different market and trade measures to bring down domestic prices. The manner in which the different market and trade measures were applied varies from country to country as discussed below.

2.1 Releasing food stock to the market

Releasing public stocks and providing consumer subsidies were among the most common measures applied to contain the problem of rising food prices. Countries such as India, Ethiopia, Senegal, Cameroon, China and Pakistan released public stocks and offered targeted and untargeted subsidies for staple food. However, the degree to which prices are influenced on the open market depends on the amount of food stock released or made available for release onto the market. National grain reserve systems and state grain trading companies, together with bumper harvests, have helped China escape the steep increases in grain prices that have hit other countries in the Asia-Pacific region. A record purchase of rice and wheat by the Food Corporation of India³ (the government's grain procurement and distribution agency) in 2008 has created an opportunity for the Indian government to release sufficient stock into the market to stabilize prices. Owing to a good harvest, Malawi avoided cereal imports and even managed to export maize in 2008. Malawi has also a grain marketing parastatal which undertakes open market operations.

Some countries have expanded imports to secure more stock and stabilize food prices. For instance, the government of the Philippines, a middle-income country and the world's largest rice importer, increased its imports for 2008 to 2.4 million tonnes from 2.1 million last year in a bid to ensure at least a 30-day stockpile until the end of the year⁴. The Saudi Arabian government, one of the major importers of rice in the Middle East, has proposed that rice importers consider raising their stocks of grain by 50 percent in 2008, which implies increasing strategic stock levels to cover between six and eight months of national consumption requirements (up from about four to five months' needs)⁵. Japan and China are also reported to be holding very large stocks of rice in excess of the WTO's food security guidelines of 18-20 percent of total consumption⁶.

³ A 38 percent surge (over the last year) in the Food Corporation of India (FCI) grain procurement, amounting to 50 million tonnes, is expected in 2008. See Ajay Modi, "FCI procurement of rice, wheat touches 50 MT", *Business Standard*, New Delhi, September 10, 2008.

⁴ *Philippine Daily Inquirer*, Government's hikes rice import quota to 2.4 million tonnes, June 22, 2008. <http://business.inquirer.net/money/topstories/view/20080622-144157/Govt-hikes-rice-import-quota-to-24M-tons>.

⁵ *Gulfnews.com*, Riyadh asks traders to raise rice stocks, July 29, 2008.

⁶ World Bank, *Double Jeopardy: Responding to High Food and Fuel Prices*, G8 Hokkaido- Toyako Summit, July 2, 2008.

Table 1: Trade based policy measures commonly adopted (as of 1 December 2008)

	Domestic market based measures			Trade policy measures	
	Release stock (public or imported) at subsidized price	Suspension/reduction VAT and other taxes	Admin. price control or restrict private trade	Reduction of tariffs and customs fees on imports	Restricted or banned export
Asia (26 countries)	Bangladesh Cambodia China India* Iraq Jordan Lebanon Malaysia Nepal Pakistan Philippines Republic of Korea Thailand Viet Nam Yemen	Azerbaijan China Indonesia Jordan Mongolia	Bangladesh Jordan Malaysia Pakistan Republic of Korea Sri Lanka	Azerbaijan Cambodia China Indonesia Iran Jordan Lebanon Pakistan Philippines Republic of Korea Saudi Arabia Turkey Yemen	Bangladesh Cambodia China India Iran Jordan Kazakhstan Lebanon Myanmar Nepal Pakistan Syria Vietnam
	15	5	6	13	13
Africa (33 countries)	Algeria Benin Cameroon Egypt Eritrea Ethiopia Kenya Malawi Mauritania Nigeria Senegal Sierra Leone Togo	Burkina Faso Congo Djibouti Ethiopia Ivory Coast Kenya Lesotho Madagascar Morocco Mozambique Senegal Sudan Uganda	Benin Cape Verde Djibouti Ethiopia Ivory Coast Malawi Morocco Senegal Sudan Togo	Benin Burkina Faso Cameroon Cape Verde Gambia Ghana Guinea Côte d'Ivoire Kenya Liberia Libya Madagascar Mauritania Morocco Niger Nigeria Rwanda Senegal	Cameroon Egypt Ethiopia Guinea Kenya Malawi Tanzania Zambia
	13	14	10	18	8
Latin America & Caribbean (22 countries)	Bolivia Brazil Costa Rica Dominican Republic Guatemala Guyana Honduras	Brazil Dominican Rep Guyana Suriname	Belize Costa Rica El Salvador Mexico Saint Lucia	Argentina Bahamas Belize Bolivia Brazil Ecuador El Salvador Guatemala Mexico Nicaragua Peru Trinidad & Tobago	Argentina Bolivia Brazil Ecuador
	7	4	5	12	4
Total	35	23	21	43	25

Many poor food-deficit countries seem to have been importing much less than what they actually need (due to a shortage of foreign exchange) and have been appealing for food aid or external support to bridge the balance. The Government of Mauritania, for instance, allocated a USD 3.2 million budget (equivalent to 4 500 tonnes) for the replenishment of its National Food Strategic Reserve (NFSR) in 2008⁷, while WFP (Mauritania) was looking for funds to finance 6 400 tonnes for its life-saving activities. The Government of Burkina Faso implemented subsidized sales of grain and hoped that resources would be made available to WFP to assist 600 000 beneficiaries (through school feeding and mother and child health centers) in 2008⁸. The Ethiopian Government sold about 190 000 tonnes of

⁷ http://km.fao.org/fileadmin/user_upload/fsn/docs/DISCUSSION_SUMMARY_FoodPriceRise.doc.

⁸ ReliefWeb, Rising food prices: Impact on the hungry, March 14, 2008, <http://www.reliefweb.int/rw/rwb.nsf/db900SID/ASAZ-7DLBNQ?OpenDocument>.

wheat from its grain reserve to about 800 000 urban poor and imported 150 000 tonnes of wheat in August/September 2008 to meet demand in urban areas, while WFP and NGOs channeled about 197 629⁹ tonnes of food to the increasing number of people requiring food assistance¹⁰. Poor harvests, limited public stocks and a shortage of foreign exchange have posed a major challenge to food security in many poor countries. Over the years, several African countries have scaled down or scrapped their grain reserve programs as a result of liberalization and market reform measures.

2.2 Reducing tariffs and VAT

A number of countries, including Bangladesh, Egypt, India, Indonesia, Mali, Mexico, Morocco, Pakistan, Peru, the Philippines, Senegal and Turkey, have reduced or eliminated food tariffs or taxes. The impact of tariff reduction on food prices depends on the extent of the reduction, but tariffs in developing countries had been declining as a result of multilateral agreements, regional and bilateral deals as well as from structural adjustment programmes¹¹. While the decline in food prices as a result of tariff reduction has not been of significant value in many countries, the impact has been substantial in a few countries for selected food items. For instance, Morocco cut tariffs on wheat imports from 130 to 2.5 percent, while Nigeria slashed duties on rice imports from 100 to 2.7 percent¹². India removed a 36 percent import tariff on wheat flour, and Indonesia eliminated duties on wheat and soybeans. Turkey cut import taxes on wheat to 8 percent from 130 percent and on barley to zero from 100 percent. Burkina Faso suspended import taxes on four food staples in February 2008 after riots over price increases¹³.

Several countries have also suspended or reduced domestic taxes on food items. Brazil reduced taxes on wheat, wheat flour and bread¹⁴. Mongolia scrapped its value-added tax on (imported) wheat and flour¹⁵. The Republic of Congo reduced VAT levied on a range of basic imported foodstuffs and other goods from 18 to 5 percent in May 2008¹⁶. In Madagascar, VAT was reduced on rice (from 20 to 5 percent), lighting/cooking fuel, and possibly other primary necessity goods¹⁷. Kenya removed VAT (16 percent) on rice and bread¹⁸, while Ethiopia removed VAT and turnover taxes (15 percent) on food grains and flour¹⁹. These measures may have softened the price shocks but have not solved the problem.

⁹ OCHA, Ethiopia, Weekly Situation Report, Drought/Food Crisis in Ethiopia, 23 September, 2008, <http://ochaonline.un.org/Default.aspx?alias=ochaonline.un.org/Ethioia>.

¹⁰ The government has recently announced a revision of the estimated number of people in need of humanitarian assistance from 4.6 million to 6.4 million, and the revision of the figures will necessitate additional resources. OCHA, Situation Report: Drought/Food Crisis in Ethiopia, 23rd September 2008.

¹¹ UNCTAD, Addressing the Global Food Crisis: Key trade, investment and commodity policies in ensuring sustainable food security and alleviating poverty.

¹² International Centre for Trade and Development, Rising World Food Prices: How to Address the Problem?, Vol. 12, No. 3, May 2008, <http://ictsd.net/i/news/bridges/12134/>.

¹³ Business Day, Food prices trump trade talks, April 14, 2008, <http://business.theage.com.au/business/food-prices-trump-trade-talks-20080414-25z7.html>.

¹⁴ Reuters, Brazil cuts wheat sector taxes to ease inflation, May 15, 2008, <http://uk.reuters.com/article/marketsNewsUS/idUKN1454178820080515>.

¹⁵ Business Day, Food prices trump trade talks, April 14, 2008, <http://business.theage.com.au/business/food-prices-trump-trade-talks-20080414-25z7.html>.

¹⁶ FAO Policy Database.

¹⁷ ISFP Assessment Mission Draft Report for Madagascar, Plan d' Action à Impact Rapide, Juillet 2008.

¹⁸ Policy Database - Reuters news- <http://www.reliefweb.int/rw/RWB.NSF/db900SID/MUMA-7FN8N5?OpenDocument>.

¹⁹ IMF, The Balance of Payments Impact of the Food and Fuel Price Shocks on Low-Income African Countries: A Country-by-Country Assessment, the IMF African Department, June 30, 2008, <http://www.imf.org/external/np/pp/eng/2008/063008a.pdf>.

2.3 Controlling prices

Some countries have attempted to control prices and restrict private grain trade in order to keep prices low for consumers. Sri Lanka announced retail and wholesale prices of all varieties of rice (effective 16 April 2008): the Government fixed maximum retail and wholesale prices for different grades of rice²⁰. Senegal released assorted grains to the market and announced price controls²¹. The Government of Malawi announced that all maize sales will be done through the Agricultural Development and Marketing Corporation (ADMARC), and fixed the price at which ADMARC will buy and sell maize²². The government of Côte d'Ivoire announced emergency measures to cut prices of food and basic services in April following protests against the rising cost of living²³. Malaysia imposed ceiling prices on rice sold to consumers and raised the guaranteed minimum price for rice growers²⁴. Some governments, including India, Pakistan, the Philippines (Box 1) and Thailand have also enacted harsh penalties for hoarding grain.

Box 1: Anti-hoarding measures

The Philippines has introduced one of the most aggressive measures: it has created an Anti-Rice-Hoarding Task Force (ARTF) to seek out hoarders and punish them with life sentences for “economic sabotage” or “plunder.”²⁵ The ARTF handles proceedings on inquest, preliminary investigation and prosecution of all cases relating to unlawful acts or omissions inimical to the preservation and protection of the country's rice supply. Among the alleged violations are overpricing, unreasonable depletion of stocks, non-display and refusal to sell stocks to consumers.

The Ecuadorian government set up a system of controls and monitoring of prices. Police checks have been established in markets, supermarkets, district storehouses and shops. An information campaign started on the sanctions foreseen by consumer law: a fine of USD100 to 1 000 and imprisonment for six to 24 months.

Box 2: Administrative measures to control prices in Pakistan

To keep prices low during the procurement period (April-June) and to avoid wheat hoarding and smuggling, the Provincial Government of Punjab implemented administrative measures limiting the flow of wheat to other provinces. The measures included: i) enforcement of regulatory mechanisms to limit the inter-district and inter-provincial movement of wheat; ii) restriction on flour mills to stock wheat in excess of the one month requirement; and iii) provision of wheat flour rather than wheat grain to other provinces and to Afghanistan.

Source: High food prices in Pakistan, UN Inter-Agency Assessment Mission, July 2008

²⁰ Asian Tribune, Sri Lanka imposes price control on retail and wholesale prices of rice, April 17, 2008, <http://www.asiantribune.com/?q=node/10614>.

²¹ FAO Policy Database.

²² IRIN, MALAWI: Cheer and concern over ban on private sale of maize, August 28, 2008, <http://www.irinnews.org/Report.aspx?ReportId=80052>.

²³ IRIN, Ivory Coast: Government curbs prices after second day of confrontations, April 4, 2008, <http://www.irinnews.org/Report.aspx?ReportId=77558>.

²⁴ China View, Malaysia takes measures to keep price of rice down, May 13, 2008, http://news.xinhuanet.com/english/2008-05/13/content_8158823.ase.

²⁵ IFDC, IFDC Focus on Fertilizers and Food Security, September 8, 2008, (<http://www.ifdc.org/focusonfertilizer7.html>).

Enforcing price controls is costly and difficult in case there is no adequate public stock or imported supply to meet demand at government-fixed prices. Prices fixed at low levels are also likely to discourage domestic production and create a black market. Some governments thus opted for a partnership with the private sector to prevent price hikes. The Mexican Government, for instance, opted for public-private partnerships and announced a price freeze on 150 basic-basket food products until the year's end as part of a pact with the National Confederation of Chambers of Industry (Concamin). Food processors affiliated with the largest Mexican industrial trade groups agreed not to pass on their rising production cost to consumers. The agreement is intended to enable the government to achieve price controls without direct economic intervention, such as through subsidies or ordering sanctions against manufacturers²⁶. The government of Burkina Faso also negotiated with importers and wholesalers and announced indicative prices for some basic staple foods such as sugar, oil and rice. As a result of an agreement between the government and the private sector, prices of rice and sugar in Jordan were printed on all packages to avoid retail mark-ups. The government is also launching a consumer awareness campaign and publishing the price lists of selected basic commodities²⁷. Such measures could be popular with the public but are likely to reduce private storage or marketing activities and reduce incentives for producers. It is also unclear how long the private sector can continue to avoid passing rising production costs onto consumers.

2.4 Restricting export

Major grain exporters have imposed restrictions in the wake of food price inflation. Argentina, Cambodia, China, Egypt, India, Kazakhstan, Pakistan, Russia, Ukraine and Viet Nam restricted food exports in an attempt to shore up domestic supplies. Unfortunately, world prices escalated as a result of the restrictions and the impact on the thinly traded rice market was particularly dramatic (Box 3). It has also been claimed that export bans or restrictions have created serious beggar-thy-neighbour effects due to price volatility and shortages, particularly when they are applied by major exporters.²⁸

Although high grain prices bring more foreign exchange, reconciling export earnings with high food prices at home has become a major policy dilemma. Argentina, one of the major exporters of food in the world, has been faced with the difficult task of protecting its citizens from high prices without affecting its earnings from food exports. In March 2008, the Government announced the third tax hike in six months on exports of soybeans and other products as part of an overall strategy that aims to keep local prices low and generate revenue that would allow the Government to redistribute the agricultural sector's disproportionate wealth to the people most vulnerable to price hikes. The Government was worried because food inflation had begun biting. But farmers considered the government measure as smashing the country's 'golden egg' and their long and protracted protest resulted in the lifting of the tax in July²⁹. Egypt, India, Pakistan and Viet Nam imposed a ban or steeply hiked minimum prices on fears of dwindling supplies and rising prices, but later lifted or promised to end the export restrictions.

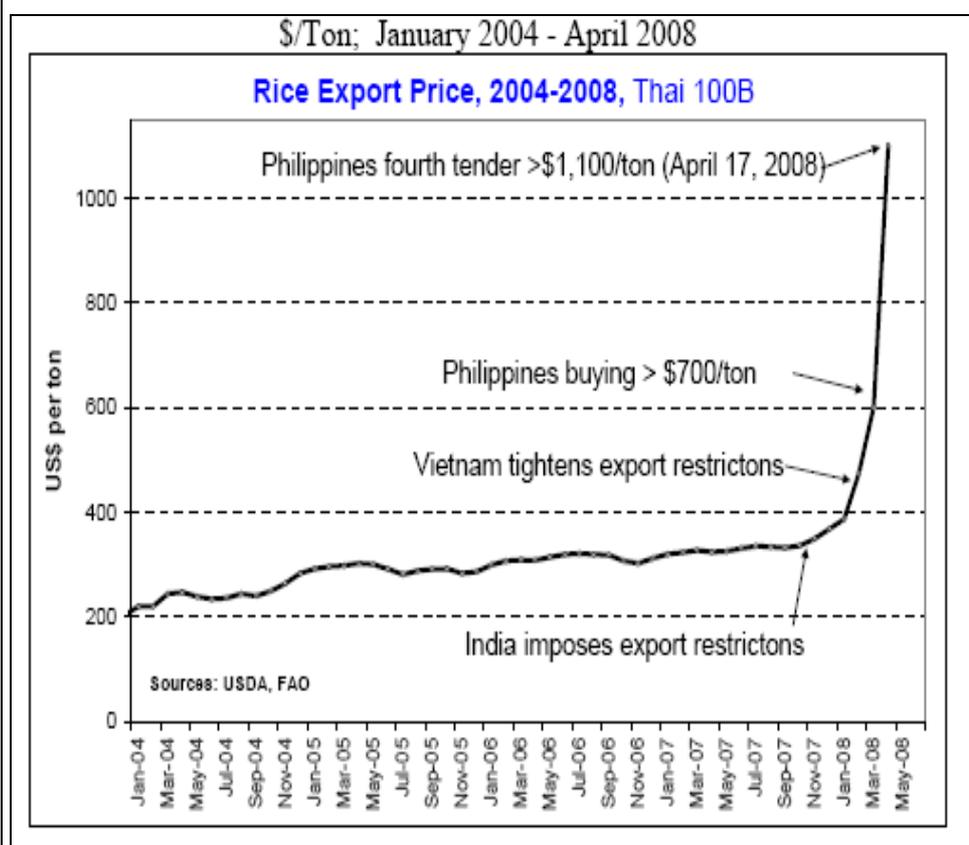
²⁶ Los Angeles Times, Mexico is freezing prices on scores of food staples, Thursday, June 19, 2008.

²⁷ Amman, Jordan, Food Security and Poverty in Jordan, Report prepared for the Office of the UNRC, July 2, 2008.

²⁸ World Bank, G8 Hokkaido-Toyako Summit Double Jeopardy: Responding to High Food and Fuel Prices, July 2, 2008, <http://siteresources.worldbank.org/NEWS/MiscContent/21828409/G8-HL-summit-paper>.

²⁹ Washingtonpost.com, Argentina Tries to Reconcile Exporting Food With Prices at Home, April 26, 2008.

Box 3 Rice Prices and Recent Policy Responses



Source: Brahmhatt M and L Christiansen (2008)
 'Rising Food Prices in East Asia: Challenges and Policy Options'

3. Safety net measures

As shown in Table 2 below, 23 countries reported cash transfer, 19 food assistance and 16 countries reported measures aimed at increasing disposable income. Safety net measures are relatively less common than market and trade interventions. Mobilizing the necessary cash or food has not been easy for poorer countries.

3.1 Cash and food transfers

Social safety nets are intended to dampen the social impact of the crisis and to avert starvation and malnutrition of most vulnerable groups in both urban and rural areas. The two main categories of safety nets are targeted cash-based transfers and food access-based approaches.

Examples of countries that used cash transfer programmes include Bangladesh, Brazil, China, Costa Rica, Egypt, Ethiopia, Haiti, India, Indonesia, Mexico, Mozambique and South Africa. A number of these countries like Brazil, Ecuador, El Salvador and Mexico already had ongoing cash transfer

programs and they only scaled up the level of payment (to compensate for the high prices) or expanded the coverage of the program (FAORLC September 2008). Conditional cash transfers (CCT, payment made upon meeting requirements such as attending training, sending children to school, etc.) seek to create incentives for individuals to invest in human resource development. CCT have been shown to reduce income inequality in Brazil, Chile and Mexico³⁰. Where CCT programs already exist, increasing their benefit or coverage has been a key part of the response. Establishing new CCTs however requires capacity and may take too long to constitute a rapid response to the crisis, while also carrying the risk of being poorly targeted and excluding the neediest.

Food assistance includes direct food transfer, food stamps or vouchers and school feeding. Countries such as Bangladesh, Cambodia, Ethiopia, Haiti, India, Liberia, Madagascar and Peru implemented self-targeted food-for-work programmes, while Afghanistan³¹, Angola³², Bangladesh and Cambodia³³ distributed emergency food aid. School feeding programmes have been reported by Brazil, Burkina Faso, Cape Verde, China, Honduras, Kenya, Mexico and Mozambique, among others³⁴. Countries such as Dominican Republic, Egypt, Ethiopia, Indonesia, Jordan, Lebanon, Mongolia, Morocco, the Philippines and Saudi Arabia³⁵ have been selling food at subsidized prices to targeted groups.

School feeding has become an important component of food assistance and income support. It is increasingly viewed as a way to encourage students from poor families to keep going to school and to discourage parents from taking their children out of school to have them look for their daily bread. High food prices have resulted in dropping out and reduced enrollments in the Philippines,³⁶ and the government there launched the "Enhanced" Food for School Feeding Program (SFP) in July 2008 to provide public elementary students from pre-determined areas with porridge every day they attend classes³⁷. Since December 2007, the government of Madagascar has spent USD3.9 million to expand the WFP's school feeding in the south, more than doubling the number of children from 60 000 to 150 000³⁸.

Nine Asian, five African and four LAC countries have taken measures to increase salaries and other benefits of mainly public-sector employees. Such measures helped to reduce tension in urban areas, particularly in "administrative" cities where civil servants constitute an important proportion of the population. The proposal to raise public sector salaries by 30 percent in Egypt was a response to the unrest over high food prices.³⁹ The poorest Egyptians are also reported to include many low-paid civil servants. Cambodia, Egypt, Ethiopia, Iraq and Syria, among others, have also taken measures to increase salaries and benefits of public-sector employees.

³⁰ S. Soares, et al., Conditional Cash Transfers in Brazil, Chile and Mexico: Impacts upon Inequality, International Poverty Centre, Working Paper, No. 35, April 2007.

³¹ <http://www.irinnews.org/Report.aspx?ReportId=77739>.

³² World Bank Rising Food Prices: Policy Options and World Bank Response April 2008
http://siteresources.worldbank.org/NEWS/Resources/risingfoodprices_backgroundnote_apr08.pdf

³³ FAO Policy Database..

³⁴ World Bank Rising Food Prices: Policy Options and World Bank Response, April 2008.

³⁵ FAO Policy Database.

³⁶ Bulatlat, Workers, Urban Poor Skip Meals to Cope with the Crisis, Vol. VIII, No. 27, August 10-16, 2008,
<http://www.bulatlat.com/2008/08/workers-urban-poor-skip-meals-cope-crisis>.

³⁷ What is up in the Philippines, President launches enhanced food for school feeding program, July 31, 2008,
<http://bayan-natin.blogspot.com/2008/07/president-launches-enhanced-for-for.html>.

³⁸ IRIN, MADAGASCAR: Seasonal food shortages on the doorstep, October 2, 2008,
<http://www.irinnews.org/Report.aspx?ReportId=80705>.

³⁹ <http://english.aljazeera.net/news/middleeast/2008/04/2008614233233710513.html>.

Table 2: Countries that introduced safety net programs in response to the high food prices

	Safety net (increased or introduced)		Increase disposable income
	Cash transfer	Food assistance	
Asia (26 countries)	Bangladesh China India Indonesia Jordan Pakistan Saudi Arabia Yemen	Afghanistan Bangladesh Cambodia India Indonesia Iraq Jordan Republic of Korea Saudi Arabia	Bangladesh Cambodia Jordan Iraq Lebanon Saudi Arabia Syria Yemen
	8	9	8
Africa (33 countries)	Burkina Faso Egypt Ethiopia Liberia Mozambique South Africa	Angola Ethiopia Liberia Madagascar Nigeria	Cameroon Egypt Ethiopia Libya
	6	5	4
Latin America & Caribbean (22 countries)	Brazil Chile Costa Rica Ecuador El Salvador Guyana Haiti Mexico Suriname	Bahamas Guatemala Haiti Peru Suriname	El Salvador* Guyana* Honduras Panama* * Reduced income tax for low income group
	9	5	4
Total	23	19	16

However, public employees in many countries are economically better off than the real poor, who are either unemployed or dependant on low-paying informal activities. Senegal has taken measures which are more in accordance with public sentiment: the President cut the number of ministers in his government by more than a quarter last December in a belt-tightening show of solidarity with citizens hit by rising fuel and food prices⁴⁰. El Salvador, Guyana and Panama reduced income tax for low-income groups, while Burkina Faso reduced the cost of electricity, but these measures may not help the poorest of the poor since they may not pay tax (e.g. unemployed) and they may not have access to electricity.

3.2 Three examples of targeted safety net measures

General subsidies are less efficient in reaching most vulnerable groups than targeted ones. They also impose greater fiscal strain than a targeted programme. Countries that already have targeted safety net programmes in place have responded to the food crisis in a more effective manner than those with no such programs. The cases of three countries below show that the design of safety net programmes varies from country to country, with considerable efficiency and equity implications.

(i) Conditional cash transfer – Mexico’s Progresa/Oportunidades

In Mexico, a CCT program, known as Progresa, is a targeted scheme where cash is directly provided to beneficiary families (usually to mothers) on the condition that children attend school and family members visit health centers regularly. Progresa was introduced in 1997 in response to the general perception that food subsidies such as the tortilla price subsidy (FEDELIST) were badly targeted at poor households and constituted a substantial drain on the government budget. It has been shown that

⁴⁰ <http://www.reuters.com/article/latestCrisis/idUSL26932.pdf>

subsidized tortillas cost 40 Pesos to transfer 100 Pesos to beneficiaries⁴¹. Progresa, which was renamed as Oportunidades in 2000, gradually replaced generalized food subsidies with direct monetary transfers. In 2002, the programme was expanded to include urban areas. The selection of eligible households was done in three stages: first, potential recipient communities are identified as poor communities (using the marginality index developed in the national population census); second, potential participating households are selected (based on data collected from a household census within the community); and third, the list of potential participants is presented to the community assemblies for review and discussion. Cash transfers for education increase with the school grade (motivated by higher opportunity costs for older children in high schools) and are also higher for girls in middle school. Cash transfer for food involves monthly payment and is conditional on households making regular trips to health clinics for a range of preventive health check ups and also attending monthly nutrition and hygiene information sessions. Progresa was designed to be non-partisan with clear eligibility criteria developed to prevent politicized distribution of benefits.

In 2008, following the high food prices and the riots of 2007, the government increased the budget for the program to 42 billion pesos, up from 39 billion in 2007. The budget is believed to have increased further since the President announced in the middle of the year that he will increase public expenditure to protect vulnerable people. The number of beneficiaries increased by 1 million and the total number of Mexicans assisted by the program reached 5 million households (one out of four Mexican families) in 2008. Payment to the poorest families also increased by 24.3 percent to an average of 665 pesos per month (from an average of 535 pesos per month). However, a comparison of the rate by which payments increased with the rate of inflation shows that beneficiaries are not fully protected from the food inflation. A recent study⁴² concluded that the expense-weighted price change for 11 most consumed food products increased by about 39 percent during the period 2006-2008. Although the programme has not fully compensated the increase in food prices, a very strong detrimental effect on the poor has been avoided because of Oportunidades and other safety net programmes. Mexico currently depends on the United States for 25 percent of its corn consumption and annual inflation fell in early September⁴³ following the fall in world grain prices.

Progresa/ Oportunidades has been credited with improving the health of children and adults, the nutrition and growth of children and school enrollment. The programme has been shown, through a rigorous evaluation process, to have generated substantial improvements in human capital outcomes among the poor population that it serves⁴⁴. It has created an opportunity for the Government to rapidly respond to the food crisis. The targeting methods have been effective in ensuring that the benefits reach the poorest households and administrative costs have been kept very low. An IFPRI study has found that for every 100 pesos allocated to the program, only 8.2 pesos were spent on administrative or programme costs⁴⁵. Unlike non-conditional transfers, the benefits in education, health and nutrition remain even after the programme disappears⁴⁶. A number of Latin American and Caribbean countries have reinforced CCT programs. In Brazil the “Bolsa Familia” programme, which covers 11 million families, increased the value of its transfers by 8 percent. The programme “Bono de Desarrollo Humano” in Ecuador is planning to increase its coverage by 5.3 percent, reaching 1.3 million people. Oportunidades has also been hailed with enthusiasm in countries such as India⁴⁷. However, there are

⁴¹ David Coady, *Alleviating Structural Poverty in Developing Countries: The Approach of Progresa in Mexico*, IFPRI, February 2003.

⁴² J. Valero-Gil, and M. Valero, *The effects of rising food prices on poverty in Mexico*, Working Paper, August 22, 2008, http://mpira.ub.uni-muenchen.de/10221/1/MPRA_paper_10221.pdf.

⁴³ Reuters, *UPDATE 2-Mexico's annual inflation falls in early September*, September 24, 2008, <http://www.reuters.com/article/Inflation/idUSN2444491220080924>.

⁴⁴ David Coady, *Alleviating Structural Poverty in Developing Countries: The Approach of Progresa in Mexico*, IFPRI, February 2003.

⁴⁵ IFPRI, Mexico, *Progresa Breaking the Cycle of Poverty*, 2002, <http://www.ifpri.org/pubs/ib/ib6.pdf>.

⁴⁶ World Bank, Mexico: *Income generation and social protection for the poor: Volume II an Overview of Social Protection*, Report No. 32929 – MX, August, 2005.

⁴⁷ D. Kapur, Partha Mukhopadhyay and Arvind Subramanian, *The case for Direct Cash Transfers to the Poor*, *Economic and Political Weekly*, April 12, 2008.

some issues to be resolved, such as providing a way to encourage an exit from the programme when a household's socio-economic circumstances improve, overcoming gaps in coverage for key vulnerable groups as well as improving the effectiveness of human capital services that require closer attention. There is also the question of whether the kinds of conditionality found in Latin America can be adapted to countries having much weaker institutional capacity and delivery mechanisms.

(ii) Food based assistance – Bangladesh's PFDS⁴⁸

The Government of Bangladesh has attempted to stabilize food grain market prices on the grounds that grain prices are a crucial determinant of welfare for both producers and consumers, particularly for the poorest groups. The Public Food Distribution System (PFDS) is the main instrument for stabilizing prices while at the same time making grains available to poor households who would not otherwise have access to adequate food, as well as for distributing food during emergency situations⁴⁹. The bulk of the PFDS's assistance (approximately two-thirds of the total food distributed during fiscal year 2007-08) is provided through seven channels: OMS/Open Market Sales, VGD/Vulnerable Group Development, VGF/Vulnerable Group Feeding, FFW/Food for Work, TR/Test Relief, GR/Gratuitous Relief, and Food Assistance for Chittagong Hill Tribes (CHT) Area. Grain is either purchased from the domestic market or imported from abroad.

Bangladesh's food insecure population, estimated to be 65.3 million, increased by 7.5 to 12.3 million in 2008, largely because of the impact of higher food prices. The undernourished population is believed to have increased from 27.9 million to 34.7 million after the price shock. It has been estimated (by the FAO/WFP CFSAM) that approximately 30.5 million people were receiving assistance from the various programmes of the PFDS during the fiscal year 2007-08. The Government has proposed to widen and deepen social safety net programmes (in response to the food shortage and high prices), but high local and international prices have made it impossible to meet procurement targets and assist all poor families. The Government was unable to buy sufficient quantities from the local market, since it could only offer a procurement price that was 15 percent less than the market price in April 2008. The rice market in Bangladesh has been affected by the supply and demand situation in neighbouring countries. Export restrictions in India and the failure of Myanmar to honor its commitment to export to Bangladesh (because of the devastation caused by Cyclone Nargis) added to the tightening of the PFDS's supplies. The price of rice increased by about 52 percent in August 2008 (over August 2007) and failed to come down in July and August, when world prices started declining. Protests against the high prices were held twice (in April and June), and the Government was forced to set up army-led joint forces to monitor prices during the month of Ramadan in order to ensure that traders could not make large profits by charging high prices⁵⁰. The Government initiated open market selling of rice from 20 August to 31 October 2008 to help the poor during the festivity season. A total of nearly 300 000 tonnes of rice was expected to be sold with a rate of USD 0.41 per kg. The Food Ministry was also given the mandate to import food to meet emergency needs without going through the usual tender process.

Non-government sources of food security have also played a critical part in providing assistance to a large number of poor households in Bangladesh. NGOs such as CARE and Save the Children-US (USAID's PL 480 Title II NGOs) are reported to be providing food assistance to about 4.8 million people. WFP is currently assisting approximately 4.7 million people (3.8 million of which are also beneficiaries of the Government programmes). BRAC, Bangladesh's largest NGO, is reported to be assisting 1.4 million people with food rations and cash assistance. There are also various other NGOs

⁴⁸ FAO/WFP Crop and food supply assessment Mission to Bangladesh, August 2008, <http://www.fao.org/docrep/011/ai472e/ai472e00.html>.

⁴⁹ Ministry of Food and Disaster Management and World Food Program/ Bangladesh, Food Security in Bangladesh, Papers presented in the National Workshop, 19-20 October 2005.

⁵⁰ The Daily Star, Ministry can skirt purchase rules for urgent food import; UNB, Dhaka, July 25, 2008, in Amader Krishi, <http://amaderkrishi.wordpress.com/category/food-import/>.

operating similar programs and the FAO/WFP mission estimated that as many as 8.1 million people, representing just over 12 percent of the estimated 65.3 million food insecure population, could be receiving assistance from non-Government channels. This would mean government and non-government safety net programmes were unable to reach a significant proportion of the vulnerable population in Bangladesh in 2008. An FAO mission visiting the country in April/May 2008 estimated that about 37 percent of households reported consuming less than three meals per day because of high food prices⁵¹.

The grain reserve has enabled Bangladesh to rapidly respond to humanitarian needs, but maintaining reserves has significant cost implications. Unlike the open market sales of grain from the reserve, public stock releases for relief do not generate income with which the reserve can be replenished. The Government has to inject additional finance every year, but financial resources are often in short supply. The PFDS, on the other hand, faces a complicated task of managing its stock, averaging between 0.7 and 1.0 million tonnes, in a manner that it is not costly to handle and does not affect the market and private traders when it is released⁵². Food subsidies as social protection were discredited in recent years because of the high cost of handling and the huge subsidy requirements. Food transfer is more costly than distributing cash, since it involves inter-continental shipments (some 30-35 percent additional cost) or local procurement (5-10 percent extra cost)⁵³. Declining world food prices also made it cheaper to buy food from world markets than subsidize the consumption of domestically produced food. Nevertheless, recent events in world food markets, notably restrictions by exporting countries and unprecedented price hikes, have placed the public stocks issue back on the policy agenda. Food transfer remains the favoured intervention in acute emergencies and conflict situations, and under conditions of general food shortage and rising prices (see the Ethiopian case below). The food crisis in Bangladesh would probably have been worse if there were no public stocks and public distribution system in place. The Government policy of maintaining public stocks to provide price support to producers as well as protect consumers appears to have been a rational response to the high and risk of frequent cyclones and floods and very high levels of poverty in the country. However, a more concerted effort and additional resources will be required for the food-based safety net programme to effectively cope with high food prices, large numbers of food insecure people and the unprecedented natural disasters that Bangladesh is faced with year in and year out.

(iii) Employment based safety net program – Ethiopia’s PSNP

In 2005, the Government of Ethiopia revised its strategy of distributing food aid by shifting from a relief-oriented to a productive and development-oriented safety net approach in areas suffering from chronic food insecurity. The focus of the new programme, known as the Productive Safety Net Programme or PSNP, was to provide more reliable and timely support to chronically food insecure households in more than 260 counties. The number of beneficiaries has increased from five million people in the first year to over eight million at present (2008). Technical and financial support is provided by a joint donor group that includes DFID, USAID, the World Bank, the European Commission and WFP, among others. PSNP is designed with the objective of mobilizing labour for public works activities that build infrastructure and assets to promote agricultural productivity and access to markets (e.g. feeder roads, soil and water conservation, micro-dams for irrigation), while contributing to smoothing food consumption and protecting household assets or preventing

⁵¹ FAO/GIEWS and WFP, Special Report, FAO/WFP Crop and Food Supply Assessment Mission to Bangladesh, August 28, 2008.

⁵² Although low by international standards, food aid leakages due to inefficient transport and handling, short ration and under-coverage have been reported in the past in Bangladesh. Empowerment of women at the union level to hold program managers accountable is reported to be one of the reasons for the low level of leakages. IFPRI/ WFP, A Study of Food Aid Leakages in Bangladesh, 2004.

⁵³ WFP, Cash and Food Transfers for Food Security and Nutrition: Emerging Insights and Knowledge Gaps from WFP’s Experience, December 2006, <http://www.rlc.fao.org/es/prioridades/seguridad/ingreso/pdf/cash.pdf>.

impoverishment. People facing predictable food insecurity are targeted and offered guaranteed employment for five days a month in return for transfers of either 15 kg of cereals or cash equivalent of USD4.00 per month for each household member. Households with no labour and no other means of support are eligible for direct support worth the same as those participating. The goal is to achieve 'graduation' of beneficiaries after three to five years of cash or food transfers complemented by regular government support measures to improve agricultural productivity and transform rural livelihoods. Graduation means the household is no longer chronically food insecure and also has the economic resilience to resist falling back into chronic food insecurity in the future⁵⁴.

In response to the food crisis, the Government of Ethiopia relied on donors to provide additional support to PSNP participants and new relief aid for non-PSNP rural areas affected by the high prices. The wage rate for public work programmes was increased by 33 percent in January 2008⁵⁵. But high food prices affected other parts of the country as well. The number of rural people (from non-PSNP areas) that depended on the food assistance of various non-government organizations increased from 4.6 to 6.4 million people by August 2008. In urban areas, the Government took the responsibility of selling subsidized wheat obtained from the strategic grain reserve and from imports (section 2.1). The urban scheme is estimated to have benefited about 4.5 million people. However, prices continued to rise and maize prices escalated by 132 percent in August 2008 compared to August 2007, straining safety net activities. Demand for food transfers increased sharply in the PSNP areas, since even before the recent unprecedented price surges (i.e. 2006), the majority of households preferred food only (54 percent), followed by half food, half cash (36 percent), while less than one in ten said they would prefer cash only (9 percent). Fungibility of cash and high food prices were cited as among the major reasons for preferring food in 2006⁵⁶. WFP also reported shortfalls of 66 362 tonnes, 36 148 tonnes and 4 983 tonnes of food items for its relief, PSNP and Targeted Supplementary (TSF) programmes in September, October and November 2008, respectively.

The employment-based safety net programme in Ethiopia is a strategic move to end dependence on food aid and create more sustainable livelihoods. But there are several challenges that warrant closer attention. The high prices and the drought that affected the short rainy season clearly demonstrate that vulnerability remains a major challenge. Addressing the problems of drought and land degradation, which are the main causes of vulnerability in chronically food-insecure areas, requires a higher level of support at household level and a major investment in irrigation, soil conservation, and alternative sources of livelihoods, among other needs. The support currently provided is too little to induce significant investment on the farm or in non-farm activities. Measures aimed at preventing price increases also act as a disincentive to farmers and traders. A substantial amount of resources as well as increased institutional and technical capacity are required for Ethiopia's new safety net programme to achieve the desired goal of ending food aid dependence and stimulating sustainable livelihoods.

⁵⁴ Stephen Devereux, et al., Ethiopia's Productive Safety Net Programme (PSNP): Trends in PSNP transfers within Targeted Households, August 10, 2008.

⁵⁵ World Bank, Human Development Network, Guidance for Responses from the Human Development Sectors to Rising Food Prices, June 21, 2008 (http://www.unicef.org/wcaro/wcaro_WB_Response_Food_Prices.pdf).

⁵⁶ Stephen Devereux, et al., Ethiopia's Productive Safety Net Programme (PSNP): Trends in PSNP transfers within Targeted Households, August 10, 2006.

4. Producer oriented measures

Production-oriented measures include actions directed at supporting producers through non-market and market mechanisms. Among the 81 countries monitored, non-market based measures such as production support were reported by 35 countries, productive safety nets by 15 countries, and fertilizer and seed programs implemented by 10 countries (Table 3). On the other hand, only 15 countries carried out market intervention measures that included support to value chain management, producer price and market information.⁵⁷ The experience in implementing some of the main producer-oriented measures as well as implications and emerging trends are discussed below.

Table 3: Short-term measures aimed at supporting producers and production

Region	Non-market based production support measures			Market-based intervention
	Production Support Programmes	Productive Safety Nets	Fertilizers and Seeds Programmes	
Asia (26 countries)	Azerbaijan Bangladesh China Indonesia Malaysia Mongolia Myanmar Pakistan Republic of Korea Syria Tajikistan	Bangladesh Indonesia Iraq Philippines	Pakistan Philippines	Afghanistan Bangladesh China India Lebanon Nepal Pakistan Turkey Yemen
	11	4	2	9
Africa (33 countries)	Algeria Benin Burkina Faso Central African Republic Ghana Liberia Libya Madagascar Nigeria Senegal Seychelles Tunisia	Guinea Kenya Liberia Madagascar Tanzania Tunisia	Burkina Faso Nigeria Tunisia Zambia	Algeria Egypt Ethiopia Tunisia
	12	6	4	4
Latin America & Caribbean (22 countries)	Antigua and Barbuda Belize Brazil Costa Rica Dominican Republic Guyana Haiti Jamaica Nicaragua Peru Suriname Trinidad and Tobago	Dominican Republic El Salvador Jamaica Nicaragua Trinidad and Tobago	El Salvador Jamaica Trinidad and Tobago	Brazil Honduras
	12	5	3	2
Total	35	15	9	15

⁵⁷ Production support measures mainly include production subsidies, untargeted input subsidies and improved access to credit. Seed and fertilizer programmes are largely aimed at improving availability, while productive safety net programmes refer to targeted input subsidies (in support of poor producers).

4.1 Production support measures in developing countries

Policy response needs to find the right balance in addressing the impact of soaring food prices on producers and consumers. In the short-term, food or cash transfer can be an effective emergency policy response to support consumers, but this might have a disruptive impact on local production and consumption patterns. Such effects can be mitigated by adopting measures in support of producers. Producer support measures have taken the form of productive safety nets such as input vouchers and input subsidies in countries such as Bangladesh, Dominican Republic, Indonesia and Madagascar. In some cases, these measures have been accompanied by actions to improve access to funds and credit facilities, reduction of import taxes, exemption of producers from the payment of taxes on fertilizer and farm machinery, and by governmental purchase or governmental price support to smallholder producers.

In Bangladesh, the government is supporting farmers by procuring rice at a higher price and providing subsidy in the form of a cash transfer to poor and marginal farmers to mitigate higher costs of production for irrigation and fertilizer⁵⁸. In June 2007, the government also committed to subsidizing the extra cost that poor farmers have to bear on account of the diesel price hike for their diesel-driven irrigation pumps. Farmers using electric-powered pumps have also been promised to continue benefiting from the existing 20 percent subsidy against their electricity bills. The fertilizer subsidy was also increased significantly in the 2007-08 budget. But Bangladesh is losing 0.6 percent of its agricultural land annually and increasing productivity on declining farm land has become a huge challenge⁵⁹.

India has also raised its minimum support price for food grains, and maintained (and expanded in some cases) its subsidy on fertilizer (paid to manufacturers and importers), irrigation and power. In February 2008, the Indian Government announced a plan to cancel the entire debt of the country's small farmers in a giant scheme estimated to cost about USD15 billion⁶⁰. The 2008-09 budget of India also included a provision to significantly increase subsidized agricultural credit, boost investment in water resource development, establish the Irrigation and Water Resources Finance Corporation (IWRFC) for funding major and medium-sized irrigation projects, increase funding for crop insurance and revive cooperative credit structures⁶¹. But questions remain over the sustainability and effectiveness of India's huge and expanding subsidy programme. Moreover, while Indian agriculture has been successful in increasing food grain production in the past, it has also become very difficult to sustain growth due to environmental degradation in recent years⁶².

In March 2008, China promised to increase financial support for agricultural production with the objective of curbing inflation which is blamed on food shortages and rising prices. China has raised the minimum purchase prices for wheat and rice and improved financial services available to farmers. It also increased subsidies for seeds and other inputs and allocated more funds for flood and drought preparedness and for agricultural infrastructure⁶³. The Central Government's budget earmarked for agriculture, farmers and rural areas increased by 30 percent in 2008 (compared to 2007)⁶⁴. Despite

⁵⁸ World Bank, June 2, 2007.

⁵⁹ BangladeshNews.com.bd, Bangladesh Budget 2007 – 2008: Text of Finance Advisor's Speech, June 8th, 2007.

⁶⁰ International Herald Tribune, India waives loans to poor farmers in annual budget ahead of likely elections, February 29, 2008.

⁶¹ P. Chidambaram, Minister of Finance, Union Budget 2008 – 2009 Speech, <http://indiabudget.nic.in/ub2008-09/bs/speecha.htm>.

⁶² I. P. Abrol and Sunita Sangar, Sustaining Indian Agriculture – Conservation agriculture the way forward, *Current Science*, Vol. 91, No. 8, 25 October 2006.

⁶³ IFPRI, Responding to the World Food Crisis: Three perspectives, 2007 <http://www.ifpri.org/pubs/books/ar2007/ar07e.pdf>.

⁶⁴ CHINAGATE.com.cn, China giving greater support to agriculture to cool inflation, March 27, 2008.

these measures, China is expecting its food deficit to grow and is looking for a new and unprecedented measure to ensure food security (see section 5.2 below).

A few African countries, including Madagascar, Malawi, Tanzania and Zambia have attempted to introduce or expand input (mainly fertilizer) subsidy programmes. However, only Malawi has been implementing a well-designed targeted input subsidy programme in Africa. The subsidy programme in 2006/07 included the sale of 175 000 tonnes of fertilizer and 4 500 tonnes of seeds of hybrid maize and open pollinated varieties to targeted farmers with a 72 percent subsidy (i.e. farmers paid only 28 percent). The direct programme cost to government and donors was just under USD91 million, with 87 percent funded by the government of Malawi⁶⁵. It is estimated that maize production increased by 26 percent in 2006/07. The government has continued distributing coupons that will allow poor smallholder farmers to buy fertilizer and seeds at close to 80 and 100 percent subsidy, respectively, in 2007/08⁶⁶. Input subsidy programmes in many other African countries are still subject to the reluctance on the part of policy makers to re-introduce subsidies and a lack of funds.

Some African countries have opted for promotion of home gardens and off-season utilization of irrigated land to produce short duration vegetables and other crops. For example, in the peri-urban area of Bangui, the capital of the Central African Republic, the government has allocated money to promote the cultivation of maize, rice, cassava and poultry farming of one day old spring chickens. In Benin, an Emergency Programme has been established for immediate production of off season short-cycle rice and maize. FAO supported the off-season planting of rice in July and August in Madagascar by providing seed, bean seed and fertilizers to some 6 000 farmers hardest hit by cyclones.

The policy challenge of protecting consumers while allowing small producers to benefit from the high prices has not been easy in many countries, especially in those that are poor and food-insecure. Poor infrastructure, price instability as well as policy measures limiting the transmission of high prices to producers, coupled with the current high prices of fertilizer, are likely to discourage small farmers from investing in productivity-enhancing technologies. The current crisis has yet to trigger a concerted effort aimed at improving transport and communication infrastructure, investing in soil and water conservation, enhancing small-scale irrigation and extension services and other measures, in many of the poorest countries.

Production response is also constrained by the high cost of fertilizer. Fertilizer prices have more than doubled in recent months, and China has imposed 150 percent export tax on fertilizer. High fertilizer prices have led to riots among smallholder farmers in developing countries. Fertilizer protests have been reported in Egypt, India, Kenya, Nepal, Nigeria, Pakistan, Taiwan and Viet Nam⁶⁷.

While smallholders protest the unaffordability and inaccessibility of fertilizers, large commercial farmers in developed as well as those in most food exporting countries appear to be benefiting from the high food prices. They seem to be barely affected by the high fertilizer prices (because they have benefited from the high grain prices) and their efforts toward an increased supply response seem to have gained momentum. Cereal production in developed countries has increased by 11 percent between 2007 and 2008 – largely by expanding production on land set aside previously by regulation – while at the same time developing countries' production increased only by 0.9 percent (production by developing countries actually *decreased* by 1.6 percent over this period if one excludes from this group Brazil, India and China)⁶⁸.

⁶⁵ ASARECA, PAAP's Electronic Newsletter, 14 November 2008, Volume 11, Number 22.

⁶⁶ USAID, FEWSNET, Malawi Food Security Update, November 2007.

⁶⁷ The Guardian, Soaring fertilizer prices threaten world's poorest farmers, August 12, 2008).

⁶⁸ FAO, Food Outlook, November 2008.

4.2 International support

The FAO has distributed key agricultural inputs in more than 80 countries through its Technical Cooperation Programme (TCP) projects and through some donor-funded activities. TCP projects are estimated to benefit 370 000 smallholder farmer households and their dependents. The World Bank has also announced a USD1.2 billion fast-track facility for dealing with the food crisis that will include not only financing for emergency food assistance, but also funding for seeds and fertilizer, irrigation, and crop and livestock insurance for small-scale farmers. The European Commission is in the process of creating a one billion Euro fund to help farmers in developing countries. The High-Level Conference convened by FAO (3 to 5 June 2008) had called on the international community to take urgent and coordinated action to combat the negative impacts of soaring food prices on the world's most vulnerable countries and populations. In response to the call, many G8 countries have made significant announcements to increase funding in response to the crisis at the conference (around USD10.6 billion) which added to prior announcements of more than USD13 billion. But deployment of these funds has been slow and only a small proportion of the declared amounts has actually been disbursed. The financial crisis is likely to further dampen the prospect of increased financial assistance, particularly as international food prices have sharply declined in the latter part of 2008.

5. The macroeconomic implications and food price impacts of the policy responses

The different policy responses - market and trade measures, safety net programmes and production support measures - were aimed at easing the high price burden. This section considers the macroeconomic implications of these measures and the extent to which prices have been contained relative to international prices as a result of these interventions.

5.1 The macroeconomic cost implications

The policy responses to high food prices have implications for macroeconomic stability of many developing countries. Government responses to mitigate the impact of the food security crisis have required increased public outlays with adverse implications for financing basic services. In particular, poorer countries have been faced with the challenge of financing subsidies, social protection and food as well as fuel imports. Several countries had to draw down their foreign exchange reserves or resort to domestic borrowing, risking reallocation of resources, higher inflationary pressures and balance of payment difficulties.

The total expenditure on food subsidies have been projected to exceed 1 percent of GDP in six countries, namely Burundi, Egypt, Jordan, Maldives, Morocco and Timor-Leste in 2008. The total transfer cost (including agricultural subsidies) is projected to be between 2 and 4.5 percent of GDP in Bangladesh, Belize, Iraq, Malawi, Mauritania, Mexico, the Philippines and South Africa in 2008. In Malawi, the transfer cost, estimated at about 2.6 percent of GDP (approximately 15 percent of government expenditure), is entirely devoted to supporting poor farmers, while nearly all targeted expenditures in Belize, Iraq, Mexico and South Africa are used to support poor consumers. Bangladesh and the Philippines roughly allocate between 30 and 40 percent of their total transfer budget to assisting poor producers⁶⁹.

⁶⁹ IMF, Fiscal Affairs Department, Fiscal Implications of Food and Fuel International Price Increases, July 2008. <http://internationalmonetaryfund.com/external/np/exr/foodfuel/pdf/fiff0710.pdf>.

The fiscal cost of high food prices is particularly significant in poor countries that are more exposed to international food and fuel price shocks as they cumulate the negative effects on public finance and inflation of both crises. Countries such as Djibouti, Eritrea, the Gambia, Haiti, Sierra Leone, Tajikistan and Togo potentially face a fiscal cost that is beyond their budgetary means. The effort to control inflation is also proving difficult as high food and energy prices are placing further pressure on fiscal expenditures of several countries⁷⁰. Where markets are not functioning well and food items are in short supply, a cash injection can also result in local inflation⁷¹.

Response to high food prices have also absorbed a significant amount of foreign exchange in many countries, especially those with low capacity to import when measured by the value of food imports as a share of foreign exchange reserves. The impact of the 2008 food and fuel price increases could exceed 50 percent of the initial international reserve for eight African countries, namely the Democratic Republic of Congo, Eritrea, Ethiopia, Guinea, Liberia, Madagascar, Malawi and Zimbabwe⁷². A recent IMF study estimated a rise in the food import bill of USD7.2 billion, or 0.3 months of imports for 43 net food importing countries with available data.⁷³

5.2 Achievements in bringing domestic food prices down

Food riots in several countries, including Bangladesh, Burkina Faso, Cambodia, Cameroon, Côte d'Ivoire, Egypt, Indonesia, Mauritania, Senegal and Yemen have forced governments to act. Many countries have thus applied a combination of different measures to counter rising food prices, which were viewed as threats to political stability. In April 2008, African finance ministers warned that the rise in international food prices was a serious threat to the continent's growth, peace and security⁷⁴. The impact of the different policy responses in containing increases in food prices is examined using data for four major food crops, namely rice, wheat, maize and millet. A total of 28 countries with relevant price data have been considered and the results show that the effort to keep down prices vary from country to country and from crop to crop.

Rice

International rice prices rose to unprecedented levels in May 2008 but have eased slightly in recent months. Nonetheless, prices remained very high, and by August 2008, Thailand white (first grade) rice was 135 percent above its level a year ago while the price of broken (second grade) was 95 percent higher (Annex 1). Annex 2 shows that domestic rice prices in the countries under consideration did not increase by as much as the international prices in most cases. The policy responses seem to have prevented the full transmission of the unprecedented price hike on the international rice market to domestic markets.

In West Africa, the price of imported rice rose by 43 percent in Mali, 50 percent in Niger and 65 percent in Burkina Faso in August 2008 (compared to August 2007). Senegal experienced the highest price surge (112 percent). Unlike many West African countries, where cereal imports accounted for

⁷⁰ World Bank, G8 Hokkaido-Toyako Summit Double Jeopardy: Responding to High Food and Fuel Prices, July 2, 2008, <http://siteresources.worldbank.org/NEWS/MiscContent/21828409/G8-HL-summit-paper.pdf>.

⁷¹ World Bank, Human Development Network, Guidance for Responses from the Human Development Sectors to Rising Food Prices, June 21, 2008.

⁷² IMF, African Department, The Balance of Payments Impact of the Food and Fuel Price Shocks on Low-Income African Countries: A Country by Country Assessment, June 30, 2008. <http://www.imf.org/external/np/pp/eng/2008/0630>.

⁷³ IMF, Food and Fuel Prices – Recent Developments, Macroeconomic Impact and Policy Responses: An Update, September 19, 2008.

⁷⁴ Democracy Now, Stuffed and Starved: As Food Riots Break Out Across the Globe, Raj Patel Details “The Hidden Battle for the World Food System”, April 8, 2008. (http://www.democracynow.org/2008/4/8/stuffed_and_starved_as_food_riots.pdf).

less than 10 percent of the total consumption (during the period 2003/04 to 2006/07), Senegal depends heavily on cereal imports, accounting for 53 percent of its domestic requirement⁷⁵.

In Asia, where rice is the dominant staple crop, rice prices increased at a much lower rate than the international price for most of the countries for which data is available. The highest rate of increase was 75 percent in Sri Lanka followed by 52 percent in Bangladesh, compared with a 95 to 135 percent increase in world rice market prices⁷⁶. On the other hand, rice prices increased by only 26 percent in India and China. Both countries restricted export and relied on government market intervention to prevent the transmission of international prices to local markets. China and India have also benefited from limited dependence on imports: cereal imports accounted for only 1 and 1.5 percent of total domestic use in India and China, respectively, during the period 2003/04 – 2006/07.

In Latin America and the Caribbean (LAC), rice price increases were relatively more pronounced (than in Asia and Africa), ranging from 85 - 90 percent (Chile, El Salvador and Haiti) to 102 percent (Bolivia)⁷⁷. Prices increased by 46 to 65 percent in Guatemala, Honduras, Nicaragua and Peru, (Annex 2). Import dependence is generally high for most LAC countries, exceeding 40 percent for most of the countries under consideration. A significantly lower rate of price increase was observed in the case of the Dominican Republic (25 percent), and this is mainly due to the excellent spring rice harvest which started in May 2008⁷⁸.

Wheat

Although declining after the peak of June 2008, world wheat prices (US No.2, hard red winter wheat f.o.b. Gulf) were still 24 percent higher in August 2008 compared to a year earlier, and the Argentina wheat price (Up river f.o.b.) was 12 percent higher (Annex 1). But domestic prices of wheat in countries such as Afghanistan, Eritrea, Ethiopia, Sri Lanka and Sudan increased more rapidly (46 to 130 percent) than the international markets. In Eritrea, where wheat is the main staple and fully imported, prices more than doubled by August 2008. The policy responses would appear to have brought limited relief in the case of wheat for the case countries, but the price surge could have been worse were it not for the actions such as releasing stock (e.g. Afghanistan, Eritrea and Ethiopia,) and reducing taxes (e.g. Ethiopia and Sudan)⁷⁹. Most of these countries are also affected by natural disasters or conflicts. A decline in the amount of food aid distribution has also contributed to the price increase in countries such as Ethiopia⁸⁰.

Maize and millet

World maize prices have followed a pattern similar to wheat, although the rates at which prices increased were higher for maize than wheat: US maize increased by 53 percent while Argentina maize increased by 39 percent in August 2008. Domestic maize prices in Ethiopia, Kenya, Malawi and

⁷⁵ All cereal import figures are from FAO/ GIEWS.

⁷⁶ The price surge in Sri Lanka could be attributed to the high level of dependence on cereal import (37 percent) and the high inflationary pressures which peaked at 28.2 percent in June 2008. See Sri Lanka Today, Sri Lanka's 'underlying' inflation in new trouble, as Thailand dumps core, 6 September 2008, http://srilankatoday.com/index.php?option=com_content&task=view&id=2.

⁷⁷ Haiti and Bolivia have also been listed as vulnerable countries by WFP.

⁷⁸ Oryza News, Dominican Republic: an excellent harvest of rice is expected, May 08, 2008, <http://oryza.com/news/Dom-Republic-rice-harvest.html>.

⁷⁹ Prices in Pakistan seem to have changed very little but this is because the quotations were in US Dollars. Prices in local currency have been increasing until August. See FAO/GIEWS, Regional food price update, Prices of food staples remain at exceptionally high levels in low-income food-deficit countries, 5 September 2008.

⁸⁰ Mulat Demeke, et al. Exploring demand and supply factors behind the new developments in grain prices in Ethiopia: Key issues and hypotheses, for DFID/ Ethiopia, April 2007.

Mozambique increased at a faster rate than world maize prices, varying from 59 percent to 157 percent (Annex 2). These countries are all very poor with limited resources to import and increase domestic supply. The price of millet (locally produced) also increased by 28 to 46 percent in Burkina Faso, Mali and Niger. On the contrary, export prices have weakened in South Africa following a bumper harvest. Maize prices in El Salvador, Haiti and Nicaragua have also declined or increased only marginally as a result of good maize harvests (in 2007) and the policy measures taken by governments to reduce prices of imported maize.

Recent price developments (July – September 2008)

Prices of rice, wheat and maize have declined on international markets in July and August. On a monthly basis, rice prices in the world market declined by 4 to 10 percent, wheat by 5 to 9 percent⁸¹ and maize by 2 to 14 percent in July and August 2008 (Annex 1). But the evidence shows that the decline was not immediately reflected in local grain prices in most the countries under consideration: the price of rice rather increased in 14 countries and decreased in only 3 in July 2008. In August, rice prices continued to rise in 6 countries, decreased marginally in 1 country (Sri Lanka) and showed no change in 4 countries⁸². The situation in the case of maize was less encouraging: prices continued to rise in most cases in July and August. Wheat prices tended to decline in some cases, but remained volatile for the most part in July and August (Annex 2).

In September, international prices of rice, wheat and maize declined further: rice by 3 to 7 percent, wheat by 8 to 10 percent and maize by 1 to 3 percent (Annex 1). However, the number of domestic grain markets that experienced price increases for primary food commodities was greater than those that witnessed a price decline, according to USAID's sample survey of 183 markets in 25 countries, 19 from Africa, 1 from the Caribbean, 2 from Central America and 2 from Central Asia. The price of primary food commodities increased in 85 markets (46.5 percent), declined in 60 markets (32.8 percent) and showed no change in 38 markets (20.7 percent). The highest increases (greater than 34 percent) were recorded in Haiti, Nigeria, Senegal, parts of Somalia and Zimbabwe⁸³.

Price declines can be attributed to good production prospects and the consequences of the global financial crisis and the accompanying economic slowdown⁸⁴.

6. Response to the crisis: a change of paradigm?

Responses of developing countries to the food security crisis appear to have been in contrast to the policy orientation most of them had pursued over the last decades as a result of the implementation of the Washington consensus supported by the Bretton Woods Institutions. This period had been characterized by an increased reliance on the market – both domestic and international – on the ground that this reliance would increase efficiency of resources allocation, and by taking world prices as a reference for measuring economic efficiency. The availability of cheap food on the international market was one of the factors that contributed to reduced investment and support to agriculture by developing countries (and their development partners), which is generally put forward as one of the reasons for the recent crisis. This increased reliance on markets was also concomitant to a progressive withdrawal of the state from the food and agriculture sector, on the ground that the private sector was more efficient from an economic point of view.

⁸¹ With the exception of August for US wheat which remained largely unchanged.

⁸² Price information was not available in the case of 7 countries in August 2008.

⁸³ USAID FEWSNET, PRICE WATCH urban markets, September 2008.

⁸⁴ Von Braun, Food and Financial Crises: Implications for Agriculture and the Poor, Brief prepared for the CGIAR Annual General Meeting, Maputo, Mozambique, December 2008.

The crisis has shown some drawbacks of this approach. Countries depending on the world market have seen their food import bills surge, while their purchasing capacity decreased, particularly in the case of those countries that also had to face higher energy import prices. This situation was further aggravated when some important export countries, under intense domestic political pressure, applied export taxes or bans in order to protect their consumers and isolate their prices from world prices.

As a result, several countries have decided to change their approach, questioning *de facto* the paradigm that had guided their policies and strategies during the last decades:

- By trying to isolate domestic prices from world prices (exporting countries);
- By moving from a food security based strategy to a food self sufficiency based strategy;
- By trying to shunt “normal” international trade processes either by acquiring land abroad for securing food and fodder procurement or by trying to engage in trade agreements at the regional level;
- By showing distrust towards the private sector (price controls, anti-hoarding laws, government intervention in output and input markets).

(i) Isolation from world markets

Section 2 of this paper already highlighted that 25 countries restricted or banned food exports in order to reduce transmission of the increase of world prices to their domestic markets.

(ii) Food self sufficiency

Several countries, including China, Indonesia, Malaysia, the Philippines and Senegal, have declared food self sufficiency as their strategic response to high food prices. For example, the Government of the Philippines, the biggest rice importer in the world, is seeking to achieve 98 percent self-sufficiency in rice by 2010. This clearly represents a change of policy orientation from food security to food self-sufficiency.

Similarly, the President of Indonesia recently stated that the country needs to become food self-sufficient, saying global food production had been compromised by the recent food crisis. "Indonesia must struggle to reach food self-sufficiency, and learn not to rely on other countries because we have our own good resources with which to develop the agriculture sector", he declared. Food self-sufficiency is to be achieved though increasing subsidy for seeds, fertilizers and loan schemes for farmers⁸⁵.

Senegal consumes about 800 000 tonnes of rice per year and nearly 80 percent of this is imported, making the nation one of the top ten importers in the world. As one of the countries hardest-hit by the crisis, with massive riots in the last few months, the President has unveiled an ambitious agricultural plan called the Great Offensive for Food and Abundance (GOANA), which aims to make Senegal self-sufficient in food staples, especially rice. The target is to produce in the next season 500 000 tonnes of rice—2.5 times more than current production⁸⁶.

The food crisis has also brought a renewed emphasis on domestic food production in many Latin American and Caribbean countries which have been relying heavily on food imports. For instance, Colombia, which imports 60 percent of its corn (3.4 million tonnes) and 96 percent of its wheat (1.4 million tonnes) requirements, has started supporting its farmers with credit to produce corn and wheat. Too heavy a focus on export crops such coffee, banana, tropical fruits and beef is considered to have adversely affected the food security situation of the country. There are also calls for expanding area under food crops, removing the huge subsidies and incentives granted for biofuels and reducing area under cattle ranching to make Colombia not only food self-sufficient but also generate surplus for

⁸⁵ The Jakarta Post, Food self-reliance national priority: SBY, November 27, 2008.

⁸⁶ Africa News Network, Food insecurity complicates land use for biofuel crops in Southern Africa, November 19, 2008 (<http://africanagriculture.blogspot.com/search/label/Tanzania>).

export. In Honduras, the President has launched the Plan for Supply of Basic Grains and the Technological Productive Voucher (BTP), in order to produce enough basic grains this year (2008) to feed the population of 7.3 million people. There will be provision of some basic inputs in terms of agricultural credit at low interest rates (lowered from 24 percent to 9 percent) for seeds, technology, etc. The policy that encouraged rice import from the US (starting in the early 1990s) as a cheap alternative in Honduras is now viewed as undesirable as it drove rice farmers into bankruptcy⁸⁷.

(iii) Shunting “normal” international trade processes

Regional cooperation

Doubting that national self-sufficiency goals can be met by small countries within a risky international environment, several regions have taken steps toward improving regional food security through regional cooperation in order to reduce dependence on imports outside the region. For example, in August 2008, the Southern African Development Community (SADC)⁸⁸ announced that it will establish a Regional Food Reserve Facility, while urging member states not to impose export restrictions on maize. Kenya, Uganda and Tanzania are discussing the possibility of setting up a regional fertilizer plant to offset high costs and ensure long-term sustainable supplies⁸⁹.

In Asia, the Greater Mekong Sub-region (GMS) intends to intensify integration of agricultural trade and establish a more equitable way to share the gains from agricultural growth. In Latin America and the Caribbean, some countries are working on integrated national plans, as is the case of the ‘Costa Rican National Food Plan’ and groups of countries are signing regional agreements, as with Bolivia, Cuba, Nicaragua and Venezuela, which have agreed on a USD100 million fund to finance multilateral cooperation on the theme of ‘Food Sovereignty’.

The food crisis has also encouraged solidarity among neighbouring countries and among some developing countries. Malawi announced in April 2008 a ban on maize exports to all countries except Zimbabwe to shore up the country’s dwindling stocks. India partially lifted its maize export ban and allowed WFP to buy maize for distribution to three African countries.

International land acquisitions for outsourcing food and fodder production

In recent years and particularly over the last few months, countries such as China, Japan, Kuwait, Saudi Arabia and South Korea and other cash-rich nations have been buying or leasing huge quantities of foreign land for the production of food for domestic consumption. Their big corporations engaged in acquiring land in foreign countries are using their technical and financial power to increase the production of food, fodder and biofuel crops. With the supply of the world’s food under long-term threat, coupled with the bubbles of the dot-coms and the derivatives or the latest financial crisis, investment in land is viewed favorably and is proving a solid bet for many investors. For instance, South Korea’s Daewoo Logistics recently announced that it had negotiated with the government of Madagascar a 99-year lease of some 3.2 million acres of farmland. Daewoo plans to put about three quarters of it under corn, while the remainder will be used to produce palm oil — a key commodity for the global biofuels market. Daewoo’s plan is to invest about USD6 billion over the next 20 years to build the port facilities, roads, power plants and irrigation systems necessary to support its agribusiness in Madagascar, and this is expected to create jobs for the country’s unemployed. Daewoo is reported to have leased the land for a price of around USD12 per acre, which is only a fraction of the price of farmland in the corporation’s home country⁹⁰.

⁸⁷ International Rice Research Institute (IRRI), Countries make plans to ramp up food output, May 15, 2008.

⁸⁸ <http://www.irinnews.org/Report.aspx?ReportId=79>.

⁸⁹ <http://www.irinnews.org/report.aspx?RepoortID=7838>.

⁹⁰ African News Network, Madagascar to be the breadbasket of Korea?, November 24, 2008. (<http://africanagriculture.blogspot.com/search/label/Tanzania>).

Between 2006 and 2008, food corporations of Japan - including Asahi, Itochu, Mitsubishi and Sumitomo— have leased and purchased hundreds of hectares of land in Africa, Brazil, Central Asia and China, for organic food production. Japanese firms are reported to own 12 million ha of farmland abroad for the production of food and fodder crops. A Gulf Cooperation Council (GCC) committee has been constituted — with representatives from Bahrain, Jordan, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates — to scout for overseas land in return for investments. Land deals have already been struck with Cambodia, Indonesia, Laos, Myanmar, Pakistan, the Philippines, Thailand and Viet Nam in Asia; Georgia, Kazakhstan, Russia, Turkey and Ukraine, in Central Asia/Europe, as well as Sudan and Uganda in Africa. Saudi Arabia is also planning to acquire 1.6 million hectares in Indonesia to produce rice for export back home. After the food crisis, there is a general recognition among Gulf countries that oil revenue cannot feed their populations⁹¹.

China is emerging as a major player in the land acquisition race. It is estimated that China has signed some 30 land deals in different parts of the world, including Africa, Australia, Central Asia and the Philippines in recent years. China has also prepared an agricultural policy on outsourcing food production. Given its huge population, rapidly disappearing farmland to industrial development and the shift of the farming population to the cities, China is looking for a cheap source of food and fodder. India is also moving fast not to be outdone by its neighbor in the land acquisition race. About 15 Indian companies, led by the public-sector State Trading Corporation (STC), are already in the process of leasing farmlands in Brazil, Paraguay and Uruguay, in Latin America, mainly to cultivate soybean and oilseeds. Indian companies are also moving into Myanmar to undertake production of pulses, and buying palm oil plantations in Indonesia⁹².

All these initiatives can be interpreted to be attempts to circumvent normal international trade processes to secure procurement at cost of food and other agricultural commodities. This approach has some similarities with that adopted by multinationals for decades and which was estimated to represent about 40 percent of world “traded” commodities in 2000 occurring outside of “normal” trade processes and that escape WTO regulations⁹³. While some of these arrangements include heavy investments leading to increased production and employment generation, they also carry the risk, unless they are properly regulated and negotiated, of having dramatic consequences on access to land by farmers and communities in developing countries and for the countries themselves in terms of lost income. For instance, farmland prices have soared in Brazil as a result of the rush for Brazilian land by foreign investors⁹⁴. In countries with no functioning land market and proprietary rights, land deals are conducted between investors and politicians who can easily be bribed to ensure that rightful residents are evicted off their land by force. In Cambodia, as in Madagascar and many other African countries, the government is granting land concessions to investors⁹⁵. A large tract of land used by subsistence farmers could be taken away, and often without adequate compensation, if the land grab continues unabated.

Similar arrangements have been adopted by some American and European companies which have leased land or sub-contracted small farmers in food-deficit countries such as Ethiopia, Mozambique and Tanzania to grow biofuel crops. The benefit of such a shift has been questioned by Ethiopian farmers in Wollaytta district of Ethiopia who converted their plots from growing food to biofuel. The company (Global Energy Ethiopia, an American-Israeli subsidiary) which promised attractive payment

⁹¹ (Grain Briefing, Seized! The 2008 Land grab for food and financial security, October 2008, (http://www.grain.org/briefings_files/landgrab-2008-en.pdf).

⁹² (Grain Briefing, Seized! The 2008 Land grab for food and financial security, October 2008, (http://www.grain.org/briefings_files/landgrab-2008-en.pdf).

⁹³ Fernández, Y and M. Maetz, Trends in World and Agricultural Trade, in Multilateral Trade Negotiations on Agriculture, A Resource Manual, I, Introduction and general topics, FAO 2000.

⁹⁴ African News Network, Food crisis spurs global land rush, November 24, 2008.

⁹⁵ Asian Human Rights Commission in News, Cambodia: Official land grab in Cambodia mirrors situation across region, August 6, 2007 (<http://www.ahrchk.net/ahrc-in-news/mainfile.php/2007ahrcinnews/1311/>).

was unable to honor its promise and the farmers, with neither cash nor food, have to rely on relief from aid agencies. Declining oil prices and the credit crunch seem to have affected the biofuel company⁹⁶.

(iv) Distrust towards the private sector

A large proportion of the measures applied have amounted to increased involvement of the public sector in food markets. Many governments have been forced to embrace greater levels of subsidies, export restrictions and price controls to ease the burden of high food prices. For many countries, this appears to represent policy reversal in an otherwise market-friendly policy orientation. Malaysia imposed a ceiling price on rice sold to consumers and raised the guaranteed minimum price (GMP) for rice growers⁹⁷. Some governments, including India, Pakistan, the Philippines and Thailand have also enacted harsh penalties for hoarding grain.

As international trade specialists question whether the 2008 food price crisis represents a structural change of world markets for food commodities, policy specialists can wonder whether the change of orientation in the policies pursued will be sustained in the future and represents a change in paradigm, or whether, after the crisis, policies will revert to the pre-crisis orientation. Whatever the answer, the fact is that the crisis has raised a fundamental policy question that will need further investigation. What is the most efficient agriculture and food security policy to be pursued by developing countries in the long term: is it to minimize intervention in the agriculture and food sector and continue the liberalized policy orientation followed over the last 25 years with the risk of having to face future acute crises and their potential for high financial and human costs? Or is it to accept to divert part of the wealth of a country (and/or its development partners) to protect and/or subsidize an agriculture and food system to enable it to avoid or face future crises at a lower financial and human cost?

⁹⁶ African News Network, Struggling Ethiopian farmers regret opting for biofuel crops over food crops, November 19, 2008 (<http://africanagriculture.blogspot.com/search/label/Tanzania>).

⁹⁷ China View, Malaysia takes measures to keep price of rice down, May 13, 2008, http://news.xinhuanet.com/english/2008-05/13/content_8158823.ase.

Annexes

Annex 1: Selected international cereal export prices*

	Annual changes Aug 07 / Aug 08	Monthly changes		
		Aug 08	July 08	September 08
United States				
Wheat ¹	24.28	-4.75	0.59	-10.20
Maize ²	52.63	-4.98	-13.11	-1.29
Sorghum ²	22.22	-13.43	-9.91	-0.48
Argentina ³				
Wheat	12.45	-9.37	-6.69	-7.82
Maize	39.10	-2.33	-13.89	-6.45
Thailand ⁴				
Rice white ⁵	134.93	-4.02	-5.75	-2.92
Rice, broken ⁶	95.17	-9.61	-9.95	-7.24

*Prices refer to the monthly average.

¹ No.2 Hard Red Winter (Ordinary Protein) f.o.b. Gulf.

² No.2 Yellow, Gulf ³ Up river, f.o.b. ⁴ Indicative traded prices.

⁵ 100 percent second grade, f.o.b. Bangkok. ⁶ A1 super, f.o.b. Bangkok.

Source: FAO/GIEWS

Annex 2: Domestic food grain price changes for selected countries (in percent)

		Annual changes	Monthly changes		
		Aug 08 /Aug 07	July 08	Aug 08	
Imported Rice	Niger	50.00	11.76	18.42	
	Mali	43.14	7.35	0.00	
	Burkina Faso	64.58	-12.22	0.00	
	Senegal	112.27*	53.11	n.a	
Local rice	Madagascar	35.73	12.98	4.13	
	Bangladesh	51.61	6.82	0.00	
	Sri Lanka	74.62	-5.06	-0.69	
	India	25.79	5.22	n.a	
	China	26.36	0.56	n.a	
	El Salvador	85.29*	n.a	n.a	
	Nicaragua	65.70	9.84	1.55	
	Guatemala	46.05	3.26	n.a	
	Honduras	53.77	3.82	n.a	
	Haiti	89.35	5.18	41.33	
	Dominican Rep.	25.36	3.79	2.46	
	Peru	48.12	6.67	2.60	
	Chile	89.58	-5.30	0.00	
	Bolivia	102.43	2.56	n.a	
	Wheat	Sudan	59.66	24.30	n.a
		Eritrea	115.25	0.00	n.a
Ethiopia		85.30	3.21	n.a	
Afghanistan		129.63	-1.61	1.64	
Pakistan		4.38	0.00	-1.76	
Sri Lanka		45.75	-0.86	-2.76	
Kenya		58.62	4.94	-5.29	
Maize	Tanzania	39.53	-3.24	0.42	
	Ethiopia	132.64*	5.04	n.a	
	Malawi	157.04*	48.98	n.a	
	Mozambique	86.64	16.62	9.50	
	South Africa	-3.95	1.58	-5.45	
	El Salvador	-3.84*	n.a	n.a	
	Haiti	10.20	-3.70	-3.84	
Nicaragua	5.41*	-2.50	-2.56		
Millet	Niger	39.29	11.76	2.63	
	Mali	28.00	10.71	3.23	
	Burkina Faso	45.83	6.25	2.94	
	Senegal	8.52*	0.00	n.a	

* Price changes refer to July 2008 / July 2007

Source: FAO/GIEWS

