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Double-Edged Prices

Lessons from the food price crisis: 10 actions developing countries should take

The recent sharp increase in food prices should have benefited millions of poor people who make their living from agriculture. However, decades of misguided policies by developing country governments on agriculture, trade, and domestic markets – often promoted by international financial institutions and supported by donor countries – have prevented poor farmers and rural workers from reaping the benefits of higher commodity prices. As a result, the crisis is hurting poor producers and consumers alike, threatening to reverse recent progress on poverty reduction in many countries. To help farmers get out of poverty while protecting poor consumers, developing country governments, with the support of donors, should invest now into smallholder agriculture and social protection.

Summary

The attention of the world is currently focused on the global financial crisis, but meanwhile, a large part of the world is also immersed in a dramatic increase in food prices and an equally sharp rise in the price of fuel. Prices of staple foods have seen increases ranging from 30 per cent to 150 per cent in 2007 and 2008. This threatens progress towards achieving the Millennium Development Goals (MDGs). In Cambodia, where half the population relies on bought rice, consumption has fallen, and many families in Burkina Faso are selling off the few cattle they own. Oxfam estimates that 290 million people living in countries most vulnerable to the food crisis are at risk of falling into poverty.

In sharp contrast to the plight of poor farmers and communities, many others in the food business appear to be cashing in on the crisis. Thailand's Charoen Pokphand Foods, a major player in Asia, is forecasting revenue growth of 237 per cent this year;¹ Nestlé's global sales grew 8.9 per cent in the first half of 2008;² Monsanto, the world's largest seed company, reported a 26 per cent increase in revenues from March to May 2008.³ UK supermarket Tesco has reported a record 10 per cent jump in profits from last year.⁴

The disastrous impact of this crisis could have been prevented. Millions of families in poor countries depend on agriculture for their living. Global aid to agriculture has declined from 18 per cent of official development assistance (ODA) in the 1980s to just 4 per cent of aid expenditure today.⁵ If rich countries, donors, and developing country governments had invested in smallholder agriculture over the past two decades, poor countries and communities would now be far less vulnerable. The few developing countries that have followed different paths and have invested in smallholder agriculture and social protection have proved to be more resilient to the crisis than their peers.

The global response to the food prices crisis has also been inadequate. This is in stark contrast with the response to the current financial crisis, where huge financial resources have been mobilised by the international community in a matter of days. Countries suffering from the food crisis received promises of just \$12.3bn at the Rome FAO conference in June 2008, well short of UN estimates of the \$25bn–\$40bn needed⁶ (and five months on, little more than \$1bn has been disbursed). The international community has failed to organise itself to respond adequately: developing countries are being bombarded with different initiatives and asked to produce multiple plans for different donors. A coordinated international response must be led by the UN to channel funds urgently to those in need, and to lead on implementation of the longer-term reforms.

Poor countries that have abandoned their agricultural systems, cut cereal production, and become highly dependent on food imports are extremely vulnerable to food price shocks. This applies especially to those countries which lack the cash to pay for their food imports. Countries which do not have well-functioning social protection systems and strategic food reserves to reduce the impact of price shocks are even more exposed.

Unfortunately, this is the case for many developing countries, and it is largely the result of specific policy decisions taken by their governments, often promoted and supported by international institutions and donor countries. Decades of highly protective and trade-distorting agricultural policies in rich countries are also to blame. Rich countries, donors, and poor countries alike must shift course if they are to reach the MDGs.

There is a great danger that this lesson will be lost in the turmoil of the crisis and that developing country governments will resort only to short-term fixes in their responses, especially since the international community is so far failing to respond adequately. A new approach is desperately needed, because most developing countries are likely to become even more vulnerable to price shocks due to climate change and its toxic combination of rising temperatures, natural disasters, and erratic rainfall patterns.

What can be done? Even before the impact of rising food prices, over 850 million people worldwide lived in hunger. Alleviating the impact of the current crisis involves addressing the chronic vulnerabilities that lie at the root of the problem. This requires structural changes in the ways that governments, international institutions, and donors address poverty and development, address the crucial role that smallholders play in poverty reduction, and recognize the key role of women in agriculture.

Although food prices may fall somewhat in the coming months, they will nevertheless remain well above the levels of the previous decade. Developing countries need to increase food production, putting in place a set of agricultural and trade policies that boost the productivity of ill-equipped, small-scale farmers. In Mexico, the PROCAMPO programme provides farmers with 950 pesos (about \$95) per hectare for crops such as corn and beans, benefitting 2.5 million farmers and accounting for 28 per cent of Mexico's agriculture budget.⁷ Brazil's PRONAF scheme provides small-scale farmers with loans, technical services and rural outreach programmes, insurance against crop losses, guaranteed prices, and a system of direct purchase from small farmers in support of food security programmes.⁸ The policy has led to a significant increase in agricultural spending, leaving Brazil better prepared to tackle the current food crisis.

Public expenditure on social protection, including job creation schemes and social insurance programmes, can be extremely cost effective in building poor people's resilience to price shocks. Countries with better social protection programmes have fared better during the current crisis.

Food prices, whether high or low seem like a double-edged sword: they hurt either consumers or producers. The false dilemma of which group to support (in practice often leading governments to have an urban bias) can be solved through policies and market interventions that enable both poor consumers and producers to cope in periods of price fluctuations. Poverty will increase in many developing countries unless their governments proactively use the crisis to overhaul agricultural, trade, and social protection policies. The international community needs to support, and not block, such reforms. To build resilience to future shocks, making investments in smallholder agriculture must be the number one priority.

Oxfam does not believe that a one-size-fits-all solution exists. However, the following 10 measures, adapted to the local context, could make a huge

difference to the millions of poor people hit by the current crisis, and build resilience to future shocks.

Poor-country governments, with the support of donors, should:

- Increase public spending on agriculture to generate supply in the short term, and provide support to smallholder farmers in the longer term;
- Properly target farming sector expenditure, both in order to provide the public services required and to reach small-scale producers;
- Invest in social protection programmes to enable citizens to meet their basic needs and protect their livelihoods from potential threats;
- Consider contributing to national or regional strategic food reserves to counteract food shortages and market volatility. Assistance programmes should encourage local communities to design community-based food reserves;
- Adopt trade measures that protect small-scale producers, strategic agricultural sectors, and emerging companies;
- Avoid resorting to trade measures (such as export bans) that could exacerbate the crisis or undermine long-term development prospects;
- Support the creation and strengthening of trade unions, producer organisations, and women's groups in particular, in order that they can take part in the design, implementation, and monitoring of food and agricultural policies, negotiate collectively to bring down the prices of inputs purchased, and obtain better wages and prices for their products;
- Promote access to assets and services, particularly for women farmers. Access to land, water, seeds, fertilisers, technology, loans, infrastructure, and energy is often insufficient, insecure, or too expensive;
- Address the problems of waged agricultural workers, developing and enforcing labour legislation for rural workers and establishing guaranteed employment programmes for people who remain unemployed out of season;
- Build community-level resilience to climate change to ensure that poor producers can benefit from higher food prices and both adapt to and mitigate the impacts of climate change.

In addition, rich countries, the World Bank and other donors should:

- Coordinate their action and funding through a United Nations-led mechanism, building on the work done by the High Level Task Force on food prices.
- Increase investment in development assistance to agriculture in developing countries, particularly for smallholders.
- Stop pressing for rapid liberalisation and opposing adequate safeguards for developing countries in multilateral, regional, and bilateral trade negotiations and agreements.

- Reform their agriculture and trade policies that permit dumping, restrict policy space, and hinder growth in developing countries, so that countries can support their own agricultural development and in turn ensure food security.

1 Introduction

'There is nothing in the pot. We have no food for a meal. Often a pot is put on the fire so children think a meal is being prepared. It gives them hope. If we told them there was no food they would start crying and there would be nothing we could do. This way they just go to sleep quietly.' – Aliou, a mother from a rural village in Mauritania

While global attention to the food price crisis seems to be fading, millions of people in the world today still cannot afford to buy enough to eat. In Indonesia in May 2008, palm oil prices were double the level of a year earlier. In Lebanon, the cost of imported food has more than doubled,⁹ and in Senegal the price of wheat has almost doubled. The poorest people walk past market stalls without stopping, struggling to make it to the next harvest.

In Cambodia, where half the population needs to buy rice, consumption has fallen; many families in Burkina Faso are selling off the few cattle they own. Far from delivering on the opportunity that higher prices should offer to boost agricultural production, every single developing country has felt the impact of the rise in the cost of food, along with the costs of transport and agricultural inputs such as fertilizers and pesticides.

Figure 1: Increases in prices of relevant staple foods, January 2007–April 2008

Country	Staple food	Price increase	Country	Staple food	Price increase
Bangladesh	Rice	66%	Mexico	<i>Tortilla</i>	66%**
Burkina Faso	Rice	30%	Nigeria	Sorghum, millet	100%
Burundi	Palm oil	95%	OPT*	Wheat flour	57-90%
Cambodia	Rice	100%	Pakistan	Wheat flour	100%
Côte d'Ivoire	Rice	> 100%	Philippines	Rice	50%
Egypt	Maize, rice	>70%	Senegal	Wheat	100%
Ethiopia	Maize	100%	Somalia	Wheat	300%
Guatemala	Maize (yellow)	34%	Sudan	Wheat	90%
Haiti	Basic food	50-100%	Sri Lanka	Rice	100%
Indonesia	Palm oil	100%	Tajikistan	Bread	100%
Lebanon	Imported food	145%	Tanzania	Maize	54%
Mozambique	Maize	43%	Uganda	Maize	65%

* OPT: Occupied Palestinian Territories

** Increase between November and December 2007

Sources: Oxfam background research for Bangladesh, Burkina Faso, Cambodia, Guatemala, Indonesia, Lebanon, Mexico, Occupied Palestinian Territories, Pakistan, and Tanzania; FAO (April 2008) for other countries

The crisis is inflicting great suffering in the developing world. According to the World Bank, the number of malnourished people worldwide has risen by 44 million in 2008, bringing the total increase in 2007 and 2008 to 119 million, and the total number of malnourished people to nearly one billion (967 million).¹⁰ Oxfam estimates that 290 million people living in countries most vulnerable to the food crisis are at risk of falling into poverty.¹¹ These numbers will almost certainly turn out to be much greater than initially estimated, as the crisis deepened at the beginning of 2008. The Asian Development Bank recently published a report on the crisis, warning countries in Asia that the progress achieved in poverty reduction in the past few decades could be reversed.¹²

While rich countries are directing their attention to the other two pressing world crises – high fuel costs and turmoil in the financial sector – far less attention is being paid to the food price crisis. Approximately \$12.3bn was pledged at the Rome FAO conference in June 2008 in addition to \$6bn pledged earlier, a figure that falls dangerously short of UN estimates of the \$25bn–\$40bn needed to increase agricultural production and provide social protection.¹³ This is in stark contrast with the response to the current financial crisis, where huge financial resources have been mobilised by the international community in a matter of days.

The international community has failed to organise itself to respond adequately to the problem of food prices. Developing countries are being bombarded with different initiatives and asked to produce multiple plans for different donors. Despite the creation of the High Level task Force on food prices, rich countries and international institutions have not yet been able to implement a coordinated international response to the crisis.

Food prices have settled down somewhat recently, but are stuck at levels far higher than they were previously, and are expected to remain high.¹⁴ This is not a fleeting crisis. Worse still, it could have been prevented, or at least mitigated.

Millions of families in poor countries depend on agriculture for their livelihoods. If all developing country governments had invested in smallholder agriculture over the past two decades, many countries would be far less vulnerable to the price shocks today. The few countries that have followed a different path and have invested in smallholder agriculture and social protection have proved to be more resilient to the crisis than other developing countries.

Chapter 2 of this report shows that most poor people in developing countries are losing from the current high food prices. Chapter 3 assesses the main policy responses to the food crisis adopted by

developing countries. Chapter 4 describes the policies that determine a country's vulnerability, including policies on agriculture, trade, domestic markets, and social protection; and Chapter 5 presents conclusions and recommendations for ways forward to ameliorate the impacts of the food price crisis on poor people around the world.

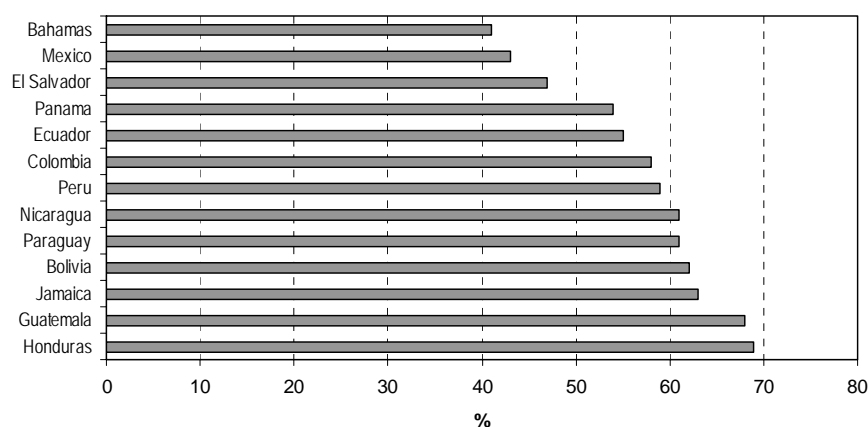
2 Few winners, and many losers

'We keep corn for eating and for making tortillas; but basically corn is all there is.' – Women from the Conrado community, Guatemala, April 2008

The recent increases in food prices do not affect all countries or all people equally. Those most negatively affected by the food crisis are the poorest of poor people, who allocate the major part of their income to buying food, and so are least able to purchase higher-priced food. Among those poorest families, women are most affected: they are eating last and least, they are, rather than buying food, preparing poorer-quality foods and queuing for cheaper foods, and yet they are the ones who are the primary producers on the farms. Only a few developing countries have farm sectors that are reaping benefits from higher prices; those seeing the biggest benefits are primarily rich country exporters and large agribusinesses.

In Honduras and Guatemala, for example, where poor households allocate close to 70 per cent of their spending to food (see Figure 2), even small price increases place severe pressure on household finances and lead to a drop in spending on education and health. In Cambodia too, the poorest 40 per cent of the population allocate 70 per cent of their expenditure to food. In Bangladesh, rising prices for rice, the staple item of people's diet, mean that the poorest quintile of the population can now eat only rice and nothing more. In many countries, price increases are forcing families to eat cheaper foods, in some cases foods with lower nutritional value.

Figure 2: Average expenditure on food in poor households, as a percentage of total expenditure

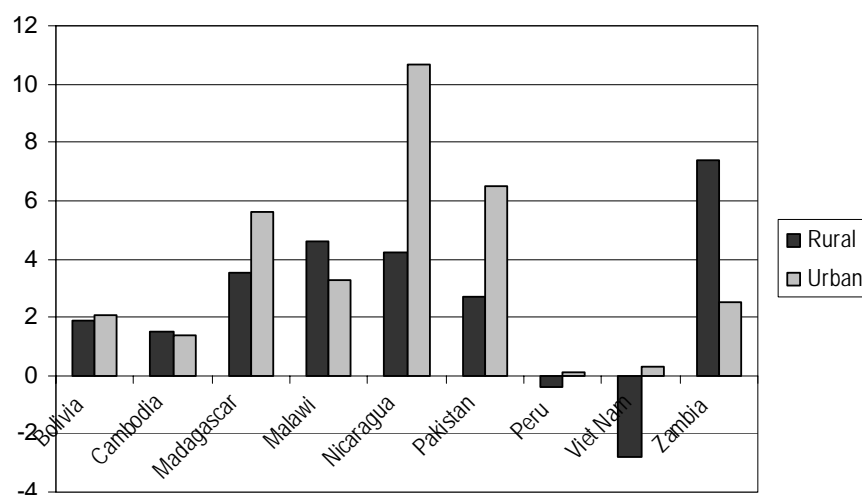


Source: Fidel Jaramillo, Inter-American Development Bank (2008)

In general, the impact of sudden increases in food prices has led to an increase in poverty in both rural and urban areas. The World Bank estimates that the food price crisis has pushed at least another 100 million people into poverty – which is tantamount to seven years lost in the fight against poverty.¹⁵

However, some are benefiting from higher prices. As shown in Figure 3, in some countries, such as Peru and Viet Nam, a reduction in overall levels of poverty has been observed, demonstrating that there are potential benefits from higher prices for poor countries.

Figure 3: Simulation of average increase in poverty rates (%) due to price increases 2005–07 in rural and urban areas of selected countries¹⁶



Source: Ivanic and Martin (2008)

Contrary to initial assumptions that poor people in rural areas were benefiting while those in urban areas were suffering, Oxfam research shows that only in a few countries are small producers benefiting from higher prices. In Cambodia, rice producers obtained a net profit in 2008 that was 30–40 per cent higher than in 2007, while producers of maize and cassava have obtained significant benefits. In Uganda, the higher price of food items in neighbouring Kenya has resulted in massive exports of food crops. In Indonesia, the price rises have offered a huge opportunity for palm oil exports: these increased by 55

per cent in 2007, making palm oil the country's biggest revenue-generating export, surpassing even copper, coal, oil, and gas.

Box 1. Agribusiness wins big

All of the world's big grain traders are currently making record profits. US-headquartered Bunge, a big food trader, saw its profits in the second fiscal quarter of 2008 increase by \$583m, or quadrupled, compared with the same period of the previous year. Thailand's Charoen Pokphand Foods, a major player in Asia, is forecasting revenue growth of 237 per cent this year. The world's big food processors, some of which are commodity traders themselves, are also cashing in: Nestlé's global sales grew 8.9 per cent in the first half of 2008.

The food corporations do not seem to be making these profits at the expense of retailers. UK supermarket Tesco has reported profits up 10 per cent from last year. Other major retailers, such as France's Carrefour and Wal-Mart in the USA, say that food sales are the main factor sustaining their increases in profit.

The seed and agrochemical companies are doing well too. Monsanto, the world's largest seed company, reported a 26 per cent increase in revenue to a record \$3.6 billion in the fiscal quarter that ended May 31 2008. Syngenta, the top pesticide manufacturer and third-largest seed company, saw profits rise 25 per cent in the first half of 2008.

Source: GRAIN (2008) 'Making a killing from hunger', Reuters¹⁷ and *The Jakarta Post*¹⁸.

Why are small farmers losing?

In a perfect world, higher commodity prices would logically lead to higher incomes for agricultural producers and farm workers. However, producers in many developing countries are experiencing just the opposite.

Net food sellers or buyers?

Production and consumption patterns are a major factor in determining the severity of the impacts of the food price crisis on rural populations. If rural households are net food sellers, or if their incomes rise above increases in expenditure, they will be less affected by higher food prices. For most rural households, however, just the opposite is true. A recent FAO study shows that most rural households in Bangladesh, Pakistan, Viet Nam, and Malawi are net consumers.¹⁹ In most of the African countries that have been studied, only 25–30 per cent of producers are net sellers,²⁰ and in Viet Nam and Cambodia the proportion rises only to about 40 per cent. Figures for most Latin American countries are even lower.

Input prices

In addition to rising food prices, rural households and agricultural producers are also faced with rising input costs. As energy prices have risen, so have the costs of critical farming inputs such as nitrogen-based fertilisers, insecticides, and pesticides. In Cambodia, prices for fertiliser have rocketed by nearly 150 per cent, preventing farmers from increasing production. In Oaxaca, Mexico, a traditional corn grower using no machinery would have watched costs escalate by 54 per cent over the past two years, due to the rising costs of urea (fertilizer).²¹ Likewise, in Guatemala, producer prices have not increased enough to compensate for higher production costs.

Small farmers face many constraints

Irrespective of prices levels, the challenges small farmers face are immense. They are struggling to increase their yields and productivity and to mitigate the underlying risks inherent in farming. In rich countries, services are readily available to combat these challenges, but in developing countries support systems are often frail. Barriers to success include limited access to financial assets and services; declining, erratic, and low rainfall patterns in many areas that also lack irrigation; poor rural infrastructure; insecure access to land; and broader social and physical deficiencies arising from underdeveloped education and healthcare systems.

Women farmers face greater challenges

Most small farmers in the developing world, particularly in Africa, are women. Women are central players in the production and provision of food: they grow it, process it, sell it, buy it, and provide it to the household. However, while responsibility for household food security rests on the shoulders of women, they do not have security themselves because the barriers to accessing the same assets, services, and wages as men are often insurmountable. This leaves poor women and girls disproportionately more vulnerable to the negative impacts of higher food prices.

Access to land is a particular problem for women farmers. In sub-Saharan Africa, women own just 1 per cent of the total land available,²² while in Brazil the proportion is 11 per cent and in Peru 13 per cent. Comprehensive statistics for South Asia are hard to come by, but one study concluded: 'South Asia falls in the male farming-systems category and is part of the belt of classic patriarchy characterised by extreme forms of gender discrimination. This includes the right to ownership of land.'²³

When women do own land, they typically have smaller holdings than their male counterparts: on average 20–35 per cent of the average

male holding.²⁴ Such land that women do own is often marginal and thus of low productivity. In some cases, for example in Ghana, plots are cultivated by men for a number of years before being allocated to women; hence again they are less productive.²⁵

Women also face discrimination in terms of access to credit, tools, training, and a variety of other agricultural services. For example, in Africa just 7 per cent of the extension services and 10 per cent of the credit available to small-scale farmers go to women.²⁶ When women do obtain credit, the average amount is just 42 per cent of the sum granted to male farmers, and often a much higher percentage of collateral is required (collateral that women rarely have).

When women are engaged in cash cropping, they do so mostly as waged workers (at a lower rate than men) or as unpaid family labourers, and have little control over assets, services, decision making, or incomes. In South Asia the majority of rural women workers are engaged in agriculture as (unpaid) 'contributing family members'; this category accounts for between half and three-quarters of female rural workers across the region.²⁷

Box 2: Women in Burkina Faso, Tanzania, and Malawi struggle to cope

Fanta Lingani, a 50-year-old woman from Burkina Faso, looks after a family with 25 members in Ouagadougou. She earns less than \$10 a month sweeping floors, but still bears the responsibility of feeding her family. To stretch her small income further, she has stopped using vegetables and peanuts for seasoning food and has replaced them with baobab tree leaves mixed with potash, a paste made by boiling water strained through ashes. With little food to go around, Fanta shares the last bowl of food with nine other people: she takes two bites and lets her five toddler grandchildren eat the rest.

In Manchali, a village in Tanzania, women bear the burden of higher food prices. They are responsible for obtaining the little food or money that might be available. As they cannot afford the cost of food, they have to look for alternative income sources, usually petty commodity activities such as collecting firewood, filtering salt, and making pots. These activities consume a lot of their time and, as a result, they cannot look after their children properly. The incidence of malnutrition has increased in recent months owing to the mothers' workloads. Households are changing their diets and reducing the number of meals they eat each day, rationing their food consumption, gathering wild foods, and seeking waged labour.

In a desperate attempt to protect their children from hunger for as long as possible, poor women in rural areas of Malawi have resorted to cooking *kalongonda*, or wild beans, for their one daily meal. These beans are deadly if not prepared correctly. To be safe to eat, they must be cooked all day, which requires the water to be changed at least seven times, consuming both scarce water and firewood. Moreover, women must guard

the *kalongonda* carefully in case their children try to eat them before they are ready, which limits their activities and productivity.

Source: Washington Post²⁸ for Burkina story; Oxfam research for Tanzania and Malawi stories.

The insecurity of agricultural waged workers

Around 40 per cent of the agricultural workforce in developing countries consists of waged agricultural workers, and these numbers are increasing. Neglect of the agricultural sector also affects waged agricultural workers, who are among the poorest and most insecure groups. In many countries, more than 60 per cent of waged agricultural workers live in poverty.²⁹ Such workers typically find employment for only half of the year and have little income to sustain them between seasons. Labour organisation tends to be weak in rural areas, and trade unions have difficulty in reaching agricultural workers, due to the seasonal and migratory nature of the work.³⁰

3 Responses to food price rises: on the right track?

To date, some reactions from developing countries to the food price crisis have raised controversies rather than providing solutions. Bans on rice exports have sparked angry debates, masking the fact that many actors have done very little.

Responses by developing countries: a mixed record ...

Practically all developing countries have employed trade or market intervention measures in an attempt to mitigate the food crisis. The impacts of these measures have been mixed, because some have failed to address the root problem of the crisis.

... with some controversial measures ...

Export bans: The most controversial response to date has been the ban on rice exports in Asian countries. India acted first, in October 2007, by setting a low domestic price for rice to constrain price inflation. By February 2008, however, prices were unmanageable and the Indian government imposed an export ban on non-basmati rice, sparking panic and a cascade of further export bans throughout the region and farther afield. Argentina, Pakistan, Tanzania, Egypt, and Viet Nam have all followed suit with different export restrictions. These measures have resulted in limited effects on domestic inflation, and have contributed to drying up supplies on global markets, driving up international prices further.

Forced control of markets: In Bangladesh, as one of the measures introduced under the state of emergency declared on 11 January 2007, the government decreed that the armed forces (and in particular the Rapid Action Battalion) should patrol markets and intervene to prevent irregularities by traders. This has led to increased insecurity and paralysis within the supply chain, further reducing food supplies.

Reduction or elimination of import tariffs: Most developing countries have reduced or even eliminated tariffs on grain imports to reduce food import bills. This measure has not elicited criticism from rich countries but rather quiet satisfaction, together with an expectation that these lower tariffs will be maintained permanently. Permanently lower tariffs could pose a serious threat to infant industries and critical agricultural sectors if prices were ever to return

to their previous levels, prompting surges of imports and the destabilisation of agricultural sectors – precisely the kinds of factors that have contributed to the severity of the current price rises.

Food subsidies: Before the current crisis, Egypt had in force a subsidy system for bread that cost about \$2.74bn a year. In response to the crisis, the government increased spending on this programme to nearly \$6bn in order to expand the range of products it covers to include rice, sugar, oil, and tea.³¹ Egypt also extended its ration card system – for the first time since 1988 – to an extra 17 million people and doubled the amount of rice that card-holders could receive. Of a total population of 75 million, 55 million now hold food ration cards.³² However, it is likely to prove difficult to maintain such a high level of public spending.

Food price controls: Since August 2007, the Government of Lebanon has maintained the average price for a bag of *pitta* bread by subsidising 13,000 tonnes of imported wheat per month. The wheat is distributed to processors, who then supply flour to bakeries at a pre-set price. Poor farmers are losing out from this practice, as they are unable to sell their wheat at market prices.

Reducing taxes on staple foods: The governments of Indonesia, Cameroon, and Morocco have all attempted to reduce staple food costs for poor people by reducing food taxes. To be effective, this measure needs to be targeted carefully at staple foods, and also requires careful consideration of potential negative impacts on fiscal revenues.

... and some positive ones

Contrasting with the measures above, there have also been more encouraging country responses. These have been those oriented towards supporting agricultural production, promoting food security, targeting smallholders, and expanding the role of social protection programmes to reduce people's exposure to risks and enhance their capacity to protect themselves against hazards such as loss of income.

Increases in national agricultural spending: In Bangladesh, the public budget for 2008/09 saw spending on agriculture increase by 4 per cent compared with the previous year, and the government reinstated agricultural production subsidies that had earlier been eliminated.

Using strategic grain reserves to reduce prices: The Cambodian government has spent \$10m to boost state rice reserves. This has allowed the sale of subsidised rice through Green Trade, a state-owned company, and has helped to keep domestic prices down.

Mexico, in response to demands from the national campaign Sin Maíz No Hay País, announced in May 2008 the creation of a strategic grain reserve to guarantee access to food for the most vulnerable families.

Multiple measures: In Brazil, the government is enabling increased food production by improving credits to agriculture and reducing tax on certain food products. It also wants to reduce taxes on fuel, set up public food reserves, correct minimum prices paid to producers, and increase insurance coverage for the agricultural sector, with special attention to small-scale farmers.

Food distribution: The Government of Bangladesh has set up a number of programmes on public food distribution to guarantee access for the most vulnerable sectors of the population. The government distributed almost 1,500 tonnes of food in 2007 and more than 1,300 tonnes by mid-2008, consisting mainly of rice.

Salary increases: The Cambodian government has increased the salaries of civil servants by 20 per cent, in an attempt to partially counter the loss of purchasing power caused by higher food prices. Textile workers and teachers have received smaller wage increases of 6 per cent and 10 per cent respectively.

Generating employment: Bangladesh has increased investment in its 'Generating 100 Days of Employment' programme, which provides employment opportunities for agricultural workers between harvests. Some 2 million people could benefit from this initiative in northern areas of the country, which are chronically prone to hunger. Mexico has increased the food component of its Oportunidades programme by an extra 120 pesos (\$12) per person (see box 7).³³

However, these immediate positive measures must be complemented by medium- and long-term responses to the crisis. Without social protection programmes in place and without serious investment in agricultural production, countries will not be resilient enough to weather future shocks. Governments, national and donor alike, and other donors must now focus their efforts on reducing the vulnerabilities to shocks that accrue from misguided trade, agriculture, and development policies.

The global response: wholly inadequate

Rich countries have spent too much time criticising developing country responses rather than finding constructive solutions. The FAO Rome Conference held in June 2008 generated donor pledges of more than \$12bn but, five months on, little more than \$1bn has been disbursed.³⁴ Such responses from rich countries are wholly inadequate, given the massive scale of the crisis. Oxfam welcomes

some of the short-term policy measures taken by developing countries, but ultimately both poor and rich countries must act jointly to tackle the long-term, underlying structural problems that have caused food prices to spiral out of the reach of poor people.

In April 2008, the United Nations agencies and the Bretton Woods Institutions joined in a High level Task Force (HLTF) on food prices set up by UN Secretary General Ban Ki-moon. In July 2008, the HLTF produced a Comprehensive Framework for Action (CFA), which provides important guidance for action to tackle the current food crisis. The CFA sets out a menu of actions that aims at meeting the immediate needs of the vulnerable populations and building longer-term resilience and global food and nutrition security. However, so far the HLTF has failed to ensure that the actions recommended are financed and implemented in a coordinated way. Developing countries are being bombarded with different initiatives and have been asked to produce multiple plans for different donors, in contrast to recent donor commitments to more effective, nationally aligned and led aid made in the Accra Agenda for Action on Development Effectiveness.

Several European governments have called for a Global Partnership for Food and Agriculture. This could allow a unified and coordinated response, led by the UN, which would channel funds urgently to those in need, lead on the revision of food and agriculture policies, and on implementation of longer-term reforms. Mechanisms for coordination are also required at national levels, and must include civil society and farmer organisations as key partners to ensure the design of appropriate responses.

4 Policies that affect vulnerability

'Soaring food prices and their impact raise serious questions as to the advisability of the current development model being pursued in most LDCs and point to the need for a development policy paradigm shift.' – UNCTAD LDC Report 2008

No country is immune from the crisis, not even emerging economies or rich countries. But not every country is affected in the same way: some are highly vulnerable, and unable to cope, while others are more resilient to food price shocks. Obviously, economic development affords alternatives, but government policies – especially on agricultural investment, trade, the development of domestic markets, and social protection – also affect the degree of vulnerability and the associated impacts experienced in different regions, countries, and communities, and within different types of livelihood.

Those countries that have invested in smallholder agriculture and social protection policies have proved to be more resilient to the crisis. Conversely, where countries have opened their markets too widely or too rapidly to food imports and have failed to invest robustly in their agricultural sectors, they have fared far worse.

Input subsidies in Malawi, rural expenditure programmes in Brazil, and a parastatal marketing board in Indonesia provide examples of centrally devised agricultural and social protection policies that have cushioned these countries from the full severity of the food crisis. This section examines central government policies that have undermined the capacity to effectively withstand and respond to the crisis, as well as those that have enabled countries to weather the storm.

Box 3: The Mexican *tortilla* crisis – warnings of a global crisis

On 30 January 2007, only 62 days after taking office, the Mexican government headed by Felipe Calderón watched as tens of thousands of people marched through Mexico City's main square, the Zócalo, demanding radical changes in agriculture and food policies. Housewives, peasant organisations, trade unions, and left-wing political parties all called on the government to take urgent action.

The reason for the protests was the price of *tortilla* (corn bread), which had risen from \$0.60 to \$1 per kilo in only two months in the Federal District and to up to \$1.50 in the rest of the country. This increase affected the poorest people most: *tortilla* makes up around 60 per cent of their required daily calorie intake; 1kg of *tortilla* at a price of \$1 represents 20 per cent of the minimum daily wage.

The government had earlier reached an agreement with the large producing companies to hold prices at a maximum of \$0.85 per kg, but this had had no effect. Neither had the strategy of doubling imports of tariff-free corn from the USA to almost 450,000 tonnes. In February 2007, the price of *tortilla* had fallen by only 1.4 per cent, and by mid-May prices in many states were still \$1–\$1.10 per kilo, putting the staple item of the Mexican diet out of the reach of poor people.

The production of biofuels and speculation by *tortilla* producers were officially blamed for the high prices. But no questions were asked as to why Mexico – the country where corn was first domesticated – had come to rely so heavily on imported corn.

In the 1980s, Mexico was reeling under massive foreign debt. In 1988, interest payments made up 57 per cent of federal expenditure and, following World Bank and IMF recommendations, the country set about reducing public spending and dismantling a system under which the State subsidised agricultural inputs, provided loans and technical assistance, regulated imports, set guaranteed prices for producers, and subsidised the price of *tortilla*.

State marketing committees and the National Company for Popular Subsistence (CONASUPO, a body which retained 15–20 per cent of production for distribution to remote areas) were also eliminated. Control of the market was usurped by a handful of agribusinesses and intermediary companies. Currently, Cargill, Maseca, ADM, Minsa, Arancia Corn Products, and Agroinsa among them control 70 per cent of Mexico's corn imports and exports.

A further blow to domestic agriculture came with the signing of the North American Free Trade Agreement (NAFTA) in 1994, under which Mexico agreed to liberalise its corn sector. Subsidised US corn began to flood the market and the price of corn in Mexico fell by more than 70 per cent in real terms, pushing thousands of corn farmers out of production and reducing overall output. After more than 4,000 years, Mexico became a net importer of corn.

Sources: Hugo García Rañó and Alder Keleman (2007)

Agricultural policies

The importance of investing in agriculture

For decades, most developing countries have failed to invest sufficiently in their agricultural sectors, as have the World Bank, the International Monetary Fund, and donors. Global aid to agriculture has declined from 18 per cent of official development assistance (ODA) in the 1980s to just 4 per cent of aid expenditure today.³⁵ Likewise, investment by national governments in agriculture has declined precipitously. Investing in agricultural productivity, with carefully targeted subsidies, is preferable to a general budget increase allocated to agriculture overall.

In the 1980s and 1990s, the international financial institutions (IFIs) and donors adopted a market-driven model for economic development. The central tenet of this model assumed that development and poverty reduction could be achieved without relying on agriculture, despite the fact that no developed country had ever achieved such growth without an agricultural revolution. Following this model – often as a precondition for donor assistance – most developing countries ignored the value of small producers and agriculture in general in their strategies for growth and economic development. Agriculture-led growth has positive and immediate effects on income and food for smallholders, and also has impact on food prices and multiplier effects in other parts of the economy.³⁶ For instance, India's last quarter growth for 2005 (reported March 06) was over 9 per cent. Much of this growth is attributed to smallholder agriculture, particularly related to value addition in the form of processing.³⁷

Recent public spending by developing countries on agriculture is indicative of this trend (see Figure 4). In China, India, and Brazil, three major emerging economies, investment in agriculture is surprisingly high compared with other poorer countries, where the farming sector accounts for a larger share of GDP. However, each of these countries has followed a different route. China has very gradually decreased its investment in agriculture, but the sector still accounted for more than 8 per cent of total public spending in 2004 (\$296 per farmer). In India, levels dropped dramatically in the 1990s, but remain above 5 per cent (\$159 per farmer). Brazil, by contrast, has increased spending since 1990, reaching 4.25 per cent of its total in 2004 (\$3,449 per farmer).

Mexico has followed a rather erratic path, dramatically reducing spending annually until 2004, when expenditure was increased to 3.8 per cent, although this still lagged behind other emerging economies. Argentina has slashed expenditure by more than 80 per cent over the past two decades, and spending now barely reaches 1 per cent.

In contrast, as this market-driven development model increasingly fails to deliver, some countries are beginning to reinvest in agriculture. Mali, Uganda, Paraguay, and Burkina Faso have all recently increased their spending on agriculture to more than 10 per cent of national budget expenditures.

Figure 4: Agricultural expenditure per farmer in developing countries (2004, US\$ per farmer)

>1,000	500–1,000	200–500	100–200	<100
Brazil	Dominican Republic	Honduras	Guatemala	Ghana
Tunisia	Argentina	Thailand	Mauritania	Indonesia
Mexico	Ecuador	Venezuela	Bolivia	Kenya
Costa Rica	Egypt	China	India	Uganda
Chile	Morocco	Nigeria	Colombia	Zambia
Uruguay	Paraguay	Sri Lanka	Burkina Faso	Sierra Leone
		Côte d'Ivoire	Cameroon	Nepal
		Philippines	El Salvador	Mozambique
			Mali	Ethiopia
			Senegal	Bangladesh
			Benin	Malawi
				Niger
				Central African Republic
				Rwanda

Source: Oxfam research, using data from UNCTAD, ECLAC, WB, and FAO

Agricultural investment programmes come in many forms. Mexico, for example, has implemented a subsidy programme of direct transfers to farmers, PROCAMPO, which provides farmers with 950 pesos (about \$95) per hectare for crops such as corn and beans. This scheme benefits 2.5 million farmers and accounts for 28 per cent of Mexico's agriculture budget. The PROCAMPO programme has arguably helped corn production in Mexico to survive and even to increase marginally, although Mexico is now a net importer of corn. Without this programme in place, higher levels of US corn imports would have generated an even more severe crisis in the rural sector.

Brazil has implemented a different model, which directs funding towards small-scale or household-based farming. The basic programme, PRONAF, was established in 1995, with the aim of providing loans to small-scale producers. It has subsequently grown to include technical services and rural outreach programmes, insurance against crop losses, guaranteed prices, and a system of direct purchase from small farmers in support of food security programmes. The policy has led to a significant increase in agricultural expenditure, leaving Brazil better prepared to tackle the current food crisis. (See Annex I for more complete information about other programs in the agricultural sector in Mexico and Brazil).

In 2005, Malawi had the worst harvest in a decade, due to a combination of poor weather, the scaling back of programmes

supporting agricultural production and, in 2002, poor management of the strategic grain reserve. The government responded with a national scheme to subsidise small farmers' access to improved seeds and fertilisers. In the past two seasons, Malawi's small farmers have recorded a 50 per cent increase in yields compared with the previous four-year average. Since 2005, investing in smallholders has meant that Malawi has gone from being a net importer to a net exporter: in 2007, it was able to export 300,000 tonnes of maize to Zimbabwe.

The withdrawal of the state

After decades of state intervention in market regulation and delivery of rural services, many countries removed these supports in favour of free-market policies, in the expectation that the private sector would step in to fill the gaps left by the state. Unfortunately, in too many instances, this has not happened, leaving many populations vulnerable to market volatility.

Box 4: BULOG: a key part of Indonesia's agricultural system

In the 1970s and 1980s, Indonesia was proactive in increasing agricultural production, as it aimed to become self-sufficient in rice – a goal it achieved in 1984. Rice production grew by nearly 150 per cent between 1968 and 1989, from less than 12m tonnes to over 29m tonnes.³⁸ In the 1980s, average rice yields increased from 2.8 tonnes to 4.2 tonnes per hectare.³⁹ Central to Indonesia's success was its policy of combining protection and regulation measures for the rice market, as well as initiating research into and dissemination of high-yield varieties of rice, providing agricultural inputs (seeds and fertilisers) to farmers, and investing in rural infrastructure and irrigation. A key actor in this process was BULOG, a parastatal agency responsible for the marketing and distribution of rice production since 1967.

BULOG used price floors to support producers and price ceilings to protect consumers. Via a dense network of offices and warehouses, BULOG bought food from farmers, then stored, sold, and distributed commodities according to need and to market supply. The parastatal was thus able to ensure the consistent availability of rice at affordable prices for consumers throughout Indonesia.

However, over a period of many years, the country was encouraged to reduce state intervention in agricultural production and markets and to open itself up to food imports by reducing import tariffs. Following this advice, Indonesia liberalised its food trade in 1998, reducing the mandate of BULOG to cover its rice operations alone and removing fertiliser subsidies and marketing restrictions. This policy resulted in higher production costs for local producers and lower incomes due to competition from cheap imports.⁴⁰ Livelihoods deteriorated further with the Asian financial crisis in 1997–98. As a result, in 1998 Indonesia became the biggest world importer of rice and a recipient of international food aid for the first time.

The liberalisation policy was strongly resisted by farmers, who blamed low prices, particularly during harvests, on the abundance of rice imports. In

2002, the government decided to reverse its policy by curbing imports of rice and encouraging domestic production by means of higher tariffs. It enforced a ban on rice imports, against the recommendations of international institutions, and in 2004 enjoyed its first year of self-sufficiency in rice for 20 years. With more than 54m tonnes of production,⁴¹ Indonesia could even export rice, and also use the food stored by BULOG to provide emergency food assistance to victims of the Indian Ocean tsunami in early 2005. Over the past two years, this near-autonomy of food supply has also greatly protected the country as food prices on global markets have soared.

Source: Oxfam research

Alongside declining government investment in agriculture, many countries also began a process of dismantling public sector institutions. In Guatemala, for example, from the late 1980s to the late 1990s the number of civil servants in the farming sector was reduced from over 20,000 to approximately 700, representing a loss of more than 95 per cent of government staff. State bodies such as the National Institute for Agricultural Marketing (in charge of marketing and price guarantees), the General Directorate for Agricultural Services (the core provider of technical assistance), the General Farming Directorate, and the Development Bank were all dismantled. The last surviving body, the Institute for Science and Technology, was severely weakened.

In Mozambique, a country where 80 per cent of the population relies on agriculture for their livelihoods,⁴² the government has only 450 extension officers. Clearly, one extension officer per 30,000 people is wholly insufficient to support the whole of Mozambique's rural population. A weak public sector lacking human resources cannot follow through on even the few investments that have been planned, and this generates pressure to further reduce budgets, creating a vicious cycle.

Stagnating yields

Steadily decreasing budgets and erratic policy making explain in part why between 1990 and 2006 many countries, chief among them Guatemala, Senegal, and Haiti, were unable to increase either productivity or yields. By contrast, countries such as Bangladesh and Brazil have improved production of both corn and rice. Countries with higher levels of development have achieved yields close to those of rich countries. Brazil has practically doubled its yields in both crops, starting from levels below those of Guatemala in 1990. This does not necessarily translate into a positive impact on small farmers, but it does demonstrate that agricultural policies can strengthen resilience against price shocks.

Improvements in yields, however, hide large discrepancies between small- and large-scale producers. The instruments needed for farmers to invest and to improve productivity, such as access to credit, inputs, information, and infrastructure, are usually available only to larger, wealthier producers who have collateral, education and, often, political influence. Between 1990 and 2005, for example, corn yields obtained by small-scale producers in Mexico increased annually by 2.2 per cent, with a total increase for the period of 38 per cent. Over the same period, large-scale producers enjoyed increases in yields of 2.9 per cent per year and an overall improvement of 53 per cent.

Trade policies

Trade policies are an essential means to promote development, guard against external shocks, and ensure food security. The global trading system should set rules that provide developing countries with opportunities to benefit from trade in agriculture, while at the same time allowing them to protect their vulnerable populations.

The failure of global trade rules

In practice, however, global trade rules have failed to enable most developing countries to strengthen their agricultural sectors or transform them into engines of development that could help reduce the vulnerability of their poorest people. Instead, trade agreements have enabled rich countries to dump highly subsidised commodities on developing country markets, locked in liberalisation without providing adequate safeguard mechanisms to defend vulnerable sectors, and maintained significant barriers to rich country markets for the agricultural products in which poor countries are most competitive. Under these circumstances, the more rapid and extensive the liberalisation process, the more devastating have been the consequences for poor countries.

This is most evident in bilateral and regional free trade agreements (FTAs) negotiated between developed and developing countries. For example, for five developing countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic), the entry into effect in 2006 of the Central American–Dominican Republic Free Trade Agreement (DR-CAFTA) forced a dramatic liberalisation of trade with the USA, their primary trading partner. US agricultural exports to these countries, where agriculture accounts for as much as a quarter of GDP and a third of all employment, reached record levels that year, up 19 per cent from 2005. At the same time, all of these countries have been experiencing an overall deceleration of growth in their agricultural sectors. In Guatemala, imports of US wheat, rice, and yellow corn have soared in recent years, and currently all staple

grains depend to some degree on the US market.⁴³ Only 2 per cent of the wheat consumed in Guatemala is now grown domestically, and production of rice has fallen dramatically.

Unilateral trade liberalisation

Trade liberalisation undertaken unilaterally has in some cases had adverse effects on both farmers and on poor people generally. For example, at a time when prices were low, many poor countries – such as Honduras and Haiti – under forced liberalisation began importing large quantities of grains and staple foods. In the late 1990s, to feed its population after the devastating Hurricane Mitch, Honduras cut its rice tariffs, and farm-gate prices fell dramatically and remained low, provoking the collapse of the rice sector, with serious social consequences in terms of farmers' livelihoods and jobs lost.

Honduran rice production over the decade was reduced by 86 per cent and the amount of foreign exchange spent on rice imports increased 20-fold, while the price to consumers rose by 140 per cent in nominal terms. The low international commodity prices that prevailed at the time did not reduce the production of grain in rich countries, due to their deeply entrenched systems of domestic support. In fact, the USA achieved record levels of rice production at a time when international prices hit a historical low.⁴⁴

Dependence on imports

Developing countries, which lack the subsidies of rich countries but whose markets are increasingly integrated into the global economy, have found themselves increasingly affected by international price instability. Existing trade rules have not helped, and in some cases have made countries more vulnerable. Years of rich country dumping, rapid liberalisation, and restricted market access for some of the most competitive exports from poor countries have fed into a vicious circle of weak productive capacity and food security, import surges, and dependence on imports.

At a time of high prices, many developing countries must rely to an even greater extent on imports to meet the national demand for food. The FAO estimates that the cost of imports in poor food-importing countries increased by 56 per cent in 2007/08 compared with the previous year, which itself saw a 36 per cent increase.⁴⁵ And when foreign exchange reserves are scarce, the rising bill for imports can cause real hardship. This is a significant concern, given that official reserves are falling rapidly in many developing countries.⁴⁶

The need for trade reforms

The reform of multilateral trade rules on agriculture remains both an unfulfilled promise and an urgent need. As the FAO recently stated, with an anticipated scenario of tighter food markets, 'a legitimate question is whether WTO agricultural rules, designed for an era of cheap food, are also adequate for addressing the problem of high food prices or whether a more fundamental reform of rules governing global agricultural trade is required'.⁴⁷ Yet, instead of pursuing a path towards such reform, rich countries are pushing developing countries harder to liberalise further through regional and bilateral FTAs, which include far more extensive provisions than those on the table in WTO negotiations.⁴⁸

Domestic market policies

'The barriers to accessing markets are not primarily policy-related... the main problem appears to be underdeveloped markets.' – Farmers' organisations in Malawi, Southern Cross, and Oxfam GB-funded research by Kadale Consultants (2008)

Following decades of state intervention in markets, liberalisation policies have forced the withdrawal of the state, with governments accepting the mantra that the invisible hand of the market would ensure adequate production and distribution of food and services. Despite reforms, however, food markets have remained highly imperfect. Rather than distributing assets and services fairly, markets have become increasingly concentrated, with a few large companies and intermediaries becoming the main point of contact with markets for small farmers, reducing their power to command higher prices.

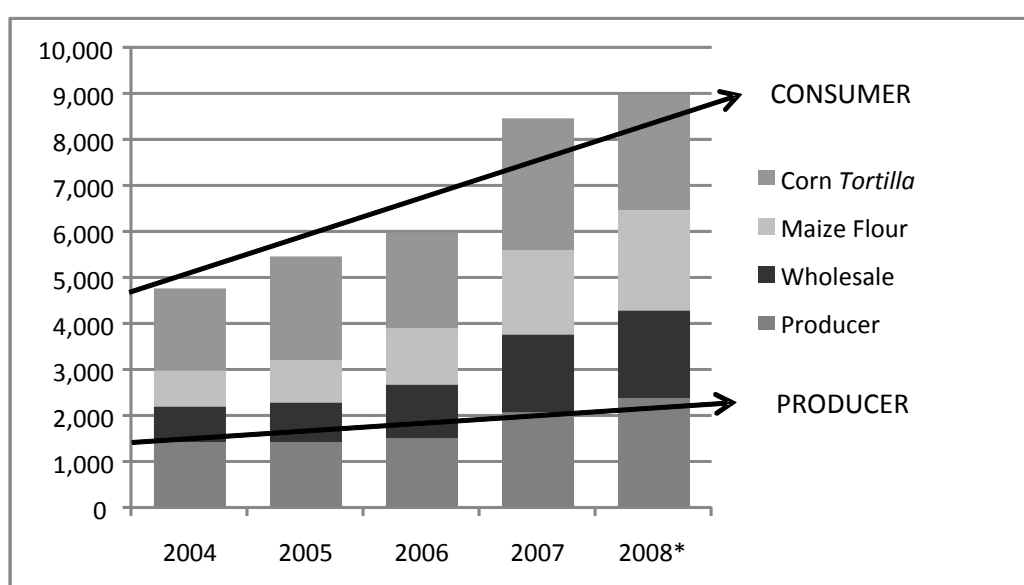
Concentration in the value chain

Liberalisation policies have further promoted a model of agricultural production that has allowed a small number of large companies to control the production chain, from the supply of inputs such as seeds and fertilisers, through the distribution chain, including the point of purchase from the producer or intermediary, to the point of sale to the consumer. The small number of actors at each stage of the chain means a concentration of power within the market, and is commonly seen in poor countries where regulation of internal markets is weak. The greater the market power at each stage within the chain, the greater the difference between the original price received by the producer and the price paid by the end consumer – usually at the expense of small-scale producers, who have less bargaining power. In an extreme example, in Somaliland (the autonomous region in north-eastern Somalia) the government has given the export contract for

livestock to a single individual: he is the only trader allowed to export, so he can determine the market value of livestock.

Moreover, power in the market can distort the way in which prices are transmitted, so that high international prices are passed on to the consumer while low international prices are passed to the producer. In Mexico, the price of *tortilla* has doubled since 2004, while the share along the maize chain that goes to producers has declined from 0.29 per cent to 0.24 per cent (see Figure 5).

Figure 5: Prices along the maize chain in Mexico (pesos per ton)



* 2008 figures estimated from agreements between federal government and actors in the corn *tortilla* chain, which sets an approximate price of 3,950 pesos per ton.

Source: Bank of Mexico and Procuraduría Federal del Consumidor (consumer watchdog, PROFECO)

Most subsistence farmers sell some of their agricultural products in local markets. Others are waged labourers working in the fields. If markets worked perfectly and if nations knew how to turn high food prices into an opportunity through smart investment, these families should benefit. However, after decades of state intervention, most countries have decided that the state should withdraw and let markets fend for themselves, leaving the field open for private sector development.

Despite reforms, food markets have remained characteristically unstructured, due in part to a lack of organisation among producers, poor infrastructure and communication systems, and a lack of market information. In many cases this has resulted in exploitative

conditions being imposed on producers, as they can only access the market through intermediaries or traders. The urgent need for income to pay for essentials and the burden of debt often force farmers to sell quickly after harvest, when prices are lowest. In Burkina Faso and Tanzania, for instance, producers cite this circumstance as the main reason for the low prices they receive.

Large transnational agro-companies have grown to the point that they exercise significant control over international markets. These corporations have the power to decide what is to be sold and at what price, and markets are unable to counter their influence.

Transnational corporations (TNCs), in the race to offer cheap products while maximising benefits to their shareholders, exert downward pressure on prices that is carried all the way down the chain to the producers. Profits are taken at various stages within the chain, and these for the most part are controlled by the same corporations.

Box 5: Guatemalan corn and rice: two markets, two sides of the crisis

The corn market is highly concentrated in Guatemala, with six to eight intermediaries stocking up on white corn each year and waiting for prices to rise. The MASECA Group, a single company acting as two separate entities – DEMAGUSA (Derivados de Maíz de Guatemala) and MINSA (Maíz Industrializado) – was responsible for 90 per cent of the country's white corn imports in 2007 and nearly 95 per cent in 2006. MASECA controls around 11 per cent of all white corn available on the Guatemalan market.

DEMAGUSA has gradually been replacing white corn imports with local production and, as a result, its imports dropped from 80,426.15 tonnes in 2006 to 58,143.62 tonnes in 2007, with only 8,000 tonnes in the year to May 2008. For the production of corn meal, DEMAGUSA buys locally: approximately 40 per cent from commercial producers (*finqueros* from the South Coast with more than four *caballería* – approximately 180 hectares – of land) and the rest from intermediaries.

These suppliers fix a price with DEMAGUSA and then negotiate costs down with the producers, putting pressure on producer groups or individual farmers to sell quickly at low prices. DEMAGUSA has accepted direct agreements with producers only in the context of a project with the World Food Programme. Other negotiations on direct agreements have failed, as DEMAGUSA offered prices per quintal (about 100lbs) that were below even local market prices, without providing any services in return.

Rice production has also suffered greatly under market liberalisation, although there have been positive aspects. The DR-CAFTA included a performance requirement for processing companies, whereby for each percentage point of quota used, companies are obliged to buy the same percentage of domestic production at a guaranteed price to the producer (currently Q118/quintal). This requirement is included in agreements entered into by members of ARROZGUA, an organisation of rice producers and millers, to regulate the domestic rice market.

The requirement means that there are no price fluctuations for rice: guaranteed prices are set for a year, providing a reference price to which marketing margins are added. ARROZGUA regulations cover all levels of the market. Increases in world prices have had a positive impact on producers here, who now earn nearly double what they did before.

Source: Oxfam research

Relying on intermediaries

It is commonplace in poor countries for a small number of intermediaries (traders, buyers, or brokers) to have the power to set prices in local markets when they buy produce directly from farmers. The lack of competition typically boosts the profits obtained by intermediaries and reduces the prices received by producers,⁴⁹ particularly when there is a glut of one crop, when production is at distance from the market, and in particular crops – like cereals – that have little potential value addition. Small producers often lack the capacity to market their produce effectively, due partly to the need to sell quickly in order to pay back debts incurred at the beginning of the planting season. This precludes them from gaining any bargaining power with the traders.⁵⁰ Even before the current price crisis, these imbalances in power relationships contributed to price disparities of up to 200 per cent between the prices received by producers at harvest-time and at other periods.⁵¹

Box 6: Tanzania: the power of intermediaries

Traders in Tanzania are fully aware of the prices in different wholesale markets. They use mobile phones to communicate with brokers and farmers to explore prices in different locations. There are significant variations in crop prices in different regional markets; the large number of small traders and buyers in areas that are easily accessible allows a good level of competition, but the situation is different in areas that are difficult to access, due to the lack of transport and of all-season roads.

Farmers are forced to be price-takers. Only a few producers have the ability to transport their products to markets outside their local area or the experience in business to bargain. Luale village is located in a mountainous area with a very poor road (which is often closed) connecting it with the nearest market at Nyandira. Farmers carry their produce on their heads to the market, and once there they sell at whatever price they can get, as they do not want to carry the produce back again.

Source: Oxfam research

In Madagascar, only 29 per cent of farmers have access to more than one buyer, and this figure drops to 6 per cent in remote areas.⁵² Under such circumstances, it is unlikely that any rise in prices on the international market will filter down to producers; rather, it will further boost the profit margins of the intermediaries. In Burkina Faso, intermediaries do not distinguish between quality standards

when buying from farmers, paying very little even for high-quality produce; however, when they sell in the market, they charge higher prices for quality produce and cash the profits.

Social protection policies

Public expenditure on ‘social protection’, including job creation schemes and social insurance programmes, can be extremely cost effective in building poor people’s resilience to price shocks. Countries with better social protection programmes have fared better during the current crisis.

Social protection is crucial to reduce vulnerability, and poor communities usually have their own social networks and security systems. These are often structured to deal with the intrinsic difficulties of living in poverty, and external interventions must strive to be complementary to them rather than disruptive. And while social protection programmes are often dismissed as being too expensive for most poor countries, most evidence shows that they are actually affordable. In the cases of Argentina, Brazil, Bangladesh and Bolivia, important social protection schemes cost less than 0.25 per cent of gross domestic product (GDP); the programme in Bangladesh costs as little as 0.3 per cent.⁵³ Poor countries should aim to allocate at least some level of spending to social protection, as such programmes are essential to help poor countries mitigate the impacts of economic or climatic shocks. (See Annex II for a more detailed description of social protection programmes in Indonesia and Brazil).

Figure 6: Social protection expenditure (% GDP) in 2004

>6%	6–4%	4–1.5%	<1.5%	Unknown
Japan	Bangladesh	Paraguay	Dominican Republic	Haiti
Uruguay	Costa Rica	Ecuador	Trinidad and Tobago	
Brazil	Morocco	Philippines	Cambodia	
Argentina	Venezuela	Mexico	Guatemala	
Cuba	Viet Nam	Indonesia	Jamaica	
Colombia	India	Pakistan	Honduras	
Chile			El Salvador	

Source: Asian Development Bank (including health and education), and ECLAC for Latin America (excluding health and education)

The Asian Development Bank recently published a study comparing policies throughout Asia and concluded that the ability to provide social protection is not dependent on the level of a country’s economic development: that is, it does not depend on wealth but on political will, and even the poorest countries can afford to establish programmes. Former Soviet bloc countries, such as Uzbekistan and

Kyrgyzstan, have much more robust social protection systems than their neighbours. India, China, and Viet Nam also have reasonable social systems. Last in the rankings are Pakistan and Cambodia, scoring well below countries with similar income levels per capita, such as India. On average, Asian countries spend almost 5 per cent of GNP on social protection, reaching 35 per cent of the target population.⁵⁴

Box 7. Social welfare in Mexico: averting a potentially bigger crisis

Lower-income families in Mexico receive on average 18,500 pesos per year, mainly via social welfare programmes (Oportunidades) and producer subsidies (PROCAMPO). Social welfare programmes provide up to 4,800 pesos per year per family, with PROCAMPO providing 963 pesos per registered hectare per year. In total, a family can receive up to 41 per cent of its income from the state, a figure that in some cases can reach 65 per cent.

Food policy includes three social welfare programmes: Oportunidades, Liconsa, and the Integrated Strategy for Food Assistance (EIASA). The Oportunidades programme provides welfare in the areas of education, healthcare, and food, with the food element consisting of a cash payment to housewives of 600 pesos per month. Women must meet certain conditions to receive this payment, such as complying with medical check-up schedules, making sure that their children attend school, and taking part in community activities organised by the local health centre.

The Liconsa programme supplies milk (between four and 24 litres per week) to low-income families with children between the ages of 6 months and 15 years and adults over 45. EIASA provides food aid through four separate programmes covering school breakfasts, under-fives at risk, vulnerable groups (elderly and disabled people and nursing mothers), and families living in extreme poverty. These programmes distribute supplies via schools, homes, and help centres.

Together, these programmes provide assistance to approximately 5 million families, or an estimated 25 million people. The amount allocated to social protection within the public budget is 36bn pesos (\$3.6bn), i.e. 0.3 per cent of GNP and 2.1 per cent of total public expenditure.

Source: SAGARPA (2008)

Millions of families affected by the food price crisis have the right to receive help now. However, many governments are currently unable to provide the support that is needed. Decades of market reforms undertaken in an attempt to reduce public spending have led to the dismantling and/or de-prioritisation of social protection programmes. As a result, more than half of the world's workers and their dependants are excluded from any type of social protection. States must ensure that social protection programmes are put in place to protect poor people against external shocks and remove the necessity for irreversible coping decisions that can contribute to poor health and destabilise opportunities for greater productive capacity.

5 Conclusion and recommendations

'Mankind is at a critical historical crossroad. The potential of globalisation and innovation to raise living standards is unprecedented, but so are social and development challenges around the world... Our increasing interdependence demands an integrated and concerted response to these global challenges. That is the historical challenge of our generation.' – G5 Political Declaration, leaders of Brazil, China, India, Mexico, and South Africa, 8 July 2008

Misguided or high-risk political decisions have made poor countries highly vulnerable to price fluctuations and, as a result, they are adversely affected by both high and low prices. In order to reduce the impacts of the food price crisis and build resilience to future shocks, misguided agriculture, trade, market, and social protection policies must be reformed and redirected towards supporting smallholder farmers, labourers, and poor people in developing countries.

Government support policies can either drive or prevent vulnerability to shocks. Emerging economies such as China and Brazil, which have invested more heavily in agriculture and social protection than many other low-income countries, have proved far more resilient to the impacts of the current food price crisis. Many low-income countries have fared far worse, due to decades of neglect of investment in agriculture and the introduction of counter-productive measures on trade and market regulation.

Although food prices may fall somewhat in the coming months, they will nonetheless remain well above the levels of the past decade. To meet the challenges of higher food prices for the foreseeable future, food production in developing countries can and should be increased by putting in place a set of agricultural and trade policies aimed at helping ill-equipped, small-scale farmers to increase their levels of productivity. Investing in agriculture and targeting small farmers is critical to achieving long-term, sustainable, and equitable development in low-income countries.

Recommendations

Once the current turmoil has died down, the food price crisis could serve as a unique opportunity to massively reduce rural poverty – but only if rich and poor countries alike take appropriate measures to address the underlying structural causes of vulnerability. Oxfam believes that poor country governments should put in place specific measures that reduce their vulnerability to future price crises and ensure that small-scale producers and agricultural workers benefit from high prices, with support from rich countries and donors. There

is no one single solution, but the following measures serve as a general action guide.

Poor country governments, with the support of donors, should:

- **Increase public spending on agriculture to generate supply in the short term, and provide support to smallholder farmers in the longer term;**
- **Properly target farming sector expenditure**, both in order to provide the public services required and to reach small-scale producers;
- **Invest in social protection programmes** to enable citizens to meet their basic needs, protect their livelihoods from potential threats, and improve their social status and rights;
- **Consider contributing to national or regional strategic food reserves to counteract food shortages and market volatility.** Assistance programmes should encourage local communities to design community-based food reserves;
- **Adopt trade measures** that protect small-scale producers, strategic agricultural sectors, and emerging companies;
- **Avoid resorting to trade measures that could exacerbate the crisis or undermine long-term development prospects.** Export bans should be avoided if possible, as such bans may harm countries and population groups that are net food importers or purchasers;
- **Support the creation and strengthening of trade unions, producer organisations, and women's groups in particular**, in order that they can take part in the design, implementation, and monitoring of food and agricultural policies and demand favourable national policies, and also so that they can negotiate collectively to bring down the prices of inputs purchased and obtain better wages and prices for their products;
- **Promote access to assets and services, particularly for women farmers.** Access to land, water, seeds, fertilisers, technology, loans, infrastructure, and energy is often insufficient, insecure, or too expensive;
- **Address the problems of waged agricultural workers**, developing and enforcing labour legislation for rural workers and establishing guaranteed employment programmes for people who remain unemployed out of season;

- **Build community-level resilience to climate change** to ensure that poor producers can benefit from higher food prices and both adapt to and mitigate the impacts of climate change.

In addition, rich countries, the World Bank, and other donors should:

- **Coordinate their action and funding through a United Nations led mechanism**, building on the work done by the High Level Task Force on food prices;
- **Increase investment in development assistance to agriculture** in developing countries, particularly for smallholders. Funding should be new, predictable, in grant form, and additional to health and education funding;
- **Stop pressing for rapid liberalisation and opposing adequate safeguards for developing countries** in multilateral, regional, and bilateral trade negotiations and agreements;
- **Reform their agriculture and trade policies that permit dumping, restrict policy space, and hinder growth in developing countries**, so that countries can support their own agricultural development and in turn ensure food security, which is central to poverty reduction;
- **Contribute to a coordinated international response, led by the UN**, which channels funds urgently to those in need, and leads on implementation of the longer-term reforms.

Annex I: Farming support programmes in Brazil and Mexico

Brazil				
Programme	Type	How it works	Budget	Scope
PRONAF	Loans programme: Strengthening of family-based agriculture	Established in 1995, it grants loans on the basis of property rather than product, based on criteria such as activity (collective loans for organisational strengthening), gross income of producer, priority sectors (agribusiness, agro-ecology, tourism, biofuels), priority groups (women, youth).	Since its creation and up to 2007 it has disbursed R\$40bn (approximately \$24.7bn) via 12m contracts, i.e. over \$2bn per year.	
ATER	Technical assistance and rural outreach programme	20,000 ATER technicians have been trained to provide technical support on the most suitable crops for development of PRONAF projects, and for soil and ecosystem conservation.	Funds have increased in recent years, from R\$3m in 2001 to R\$168m in 2008.	Active in over 4,000 municipalities, covering over 1 million families through agreements with government agencies and NGOs
SEAF	Family agriculture insurance	Offered to PRONAF beneficiary producers. Covers 100 per cent of funded value, 65 per cent of net income or a maximum of R\$2,500 (whichever is lower). Provides protection against effects of climate, crop disease, and illness.		600,000 producers in 2006/07
PGPAF	Guaranteed prices for household agriculture	Provided to PRONAF producers. Compensation for difference between guaranteed price and market prices. Covers corn, beans, yucca, rice, soy, sorghum, milk, coffee, <i>cará</i> , yam, and tomatoes.		Covers 80 per cent of PRONAF beneficiaries
PAA	Food procurement programme	Set up in 2003, it has two main aims: to support food production by household farmers and to support access to food for families suffering from food insecurity. It guarantees a family income with a purchasing limit of R\$3,500 per year (\$2,161). Food purchased is used in public initiatives such as national reserves, school meals, provision of basic food basket to families living in extreme poverty, and food for hospitals and prisons.	Since its creation five years ago, the PAA has invested R\$1.5bn, purchasing 1.25m tonnes of food	86 million small-scale farmers

Source: Oxfam research

Mexico				
Programme	Type	How it works	Budget	Scope
PROCAMPO	Direct subsidies	Assigns a specific amount (nominally 963 pesos per hectare and producer) to producers growing corn, beans, and other crops covered by the programme.	16bn pesos (28 per cent of spending on farming)	2.5 million producers
ALIANZA	Sub-programmes to support the production chain		13bn pesos (22 per cent of spending on farming), of which 4bn pesos is allocated to agriculture	
ASERCA	Marketing support	Funding for production projects or stages in the production chain to promote production. Funding has been provided to large companies to finance increases in the cost of fuel, for example. Beneficiaries include MASECA, BACHOCO, and AGROINSA, companies which concentrate added value in the corn tortilla industry, the poultry industry, and the cattle feed industry, respectively.	3.8bn pesos (8 per cent of spending on farming)	
Others		Insurance for guaranteeing objective income; also funding for small-scale producers and development of rural organisations.		

Source: SAGARPA (2008)

Annex II: Social protection programmes in Indonesia and Brazil

Indonesia			
	Type	How it works	Scope
National Community Empowerment Programme (PNPM)	Governance and service delivery	Focus on local governance and service delivery in sub-districts and village level for economically productive infrastructure such as roads, bridges, irrigation, and clean water sources, or for education- and health-related projects.	Around 68 per cent of urban and rural areas in Indonesia
Programme Keluarga Harapan	Conditional transfer programme	The programme is targeted at approximately 500,000 extremely poor families across seven provinces, and provides cash transfers conditional on these families fulfilling health and education objectives.	Targeted at 500,000 extremely poor families
Bantuan Lansung Tunai	Direct cash transfer	The three-month programme is targeted to around 19 million households by providing cash to response to shocks from fuel price hikes.	19 million households
	Food subsidies	Provides cheap rice for poor people at one-quarter to one-third of market price. Provides cheap cooking oil at 70 per cent of market price through market operations.	
	Health and education services	Free-of-charge health services for poor people and, in some provinces/districts/cities, free-of-charge health services for all. Free-of-charge basic education services in some provinces/districts/cities.	

Brazil				
	Type	How it works	Budget 2007	Scope
Programa Bolsa Familia (Family Grant Programme)	Income support	From 2000, Brazil introduced income support programmes such as the Family Grant Programme, which doubled the number of beneficiaries served between 2004 and 2007. The bulk of resources are used to purchase food locally, and many of the products (rice, beans, milk, corn, and fruit) are bought from small-scale family producers.	R\$8.6bn (\$5.3bn) – \$117 per person per year	11 million families (a total of 45 million people) in 2007
Previdência Social Rural (Rural Assistance)	Social security	In 1988, as a result of protests and mobilisation by small family producers, rural salaried workers, and civil society organisations, the Federal Constitution finally made social provisions universal for the rural population, with no means testing. This measure contributed within a few years to increasing the level of cover within the system and has significantly increased the proportion of social income making up rural family incomes.	R\$37.5bn (\$23.1bn)	26 million people in rural areas
Previdência Social	Social security for urban workers	This is a classic social security insurance system for workers in the formal market who contribute to the system.	R\$220bn (\$135.5bn)	20 million pensioners
PNAE	National school meals programme	PNAE, implemented by the Education Ministry (MEC), is one of the world's largest programmes for the distribution of school meals.	R\$1.6bn (\$0.98bn)	36 million children

Source: Oxfam research

Notes

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⁷ SAGARPA (Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food), Mexico, available at: www.sagarpa.gob.mx/

⁸ [Hhttp://www.bcb.gov.br/pre/bc_atende/port/pronaf.asp](http://www.bcb.gov.br/pre/bc_atende/port/pronaf.asp)

⁹ Pierre Zoghbi, managing director of Mainspring, a food and beverage supplier, states that the prices of imported food, including dairy products, have risen 145 percent since late 2007. A local newspaper, As-Safir, reports that from April to May 2008, the price of Egyptian rice increased by 12.5 per cent, while the price of American rice rose by 43 per cent. Price of chickpeas has risen by more than 80 per cent between June and December 2007, while bean price has increased by 55 per cent during the same period. Lentils witnessed an average price increase of 25 per cent between June and December 2007 and an additional increase of 12.7 percent between January and April. Meat, dairy, and animal-based products have also witnessed a major price increase.

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¹² Asian Development Bank (2008) 'ADB's Response to the Food Crisis'.

¹³ CFA UNHLTF, July 2008.

¹⁴ OECD-FAO (2008) 'Agricultural Outlook 2008-2017'

¹⁵ World Bank 'Seven Lost Years – The Effect of Rising Food Prices on Poverty Reduction', press release, available at www.worldbank.org.

¹⁶ The authors have considered the development of global food prices between 2005 and 2007 (using FAO data), assuming that the transmission of international prices to domestic prices is approximately complete, and not including the impact on wages.

¹⁷ Bunge profit quadruples, surprises Wall Street, July 24 2008, By Lisa Shumaker (<http://www.reuters.com/article/rbssFoodProcessing/idUSN2449070720080724>); Nestle upbeat despite consumer gloom, raises outlook, August 7, 2008 by Katie Reid (<http://www.reuters.com/article/GCA-Agflation/idUSL744903420080807>); Tesco profit up 10 pct, says riding out tough market, September 30, 2008 by Mark Potter (<http://www.reuters.com/article/rbssRetailDepartmentStores/idUSLU9887520080930H>); Monsanto profit rises, but shares fall 6 pct, by Carey Gillam, 25 June, 2008 (<http://www.reuters.com/article/hotStocksNews/idUSWNAS916320080625>); Growing food demand boosts Syngenta's profit, forecast, 24 July 2008, by Andrew Thompson (<http://www.reuters.com/article/rbssChemicalsAgricultural/idUSLL241049820080724>)

¹⁸ Charoen Pokphand eyes hefty profit, Thu, 09/18/2008, Mustaqim Adamrah: <http://www.thejakartapost.com/news/2008/09/18/charoen-pokphand-eyes-hefty-profit.html>;

¹⁹ FAO (2008) 'Soaring Food Prices: Facts, Perspectives, Impacts and Actions Required', HLC/08/INF/1.

²⁰ A. Martuscelli (2008) 'Trends, Drivers and Impact of Food Prices in Developing Countries', Intermon Oxfam, background research.

²¹ Data from the Monitoring System of Agricultural and Livestock Production Costs by System-Product (SISPRO-SECOPPA), of the Mexican Agriculture and Fisheries Information Service (SIAP) of the Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA). Available at: <http://sqm.siap.gob.mx/viocs/acceso.php>

²² Hyder et al. (2005).

²³ Ramachandran (2006:4).

²⁴ Oxfam GB (2007).

²⁵ Rossi and Lambrou (2008).

²⁶ Hyder et al. (2007).

²⁷ Ramachandran (2006).

²⁸ Washington Post, 20th July 2008, 'Africal Last and Least' by Kevin Sullivan, available at: <http://www.washingtonpost.com/wp-dyn/content/article/2008/07/19/AR2008071900962.html>

²⁹ ILO and FAO (2008) 'Food, Agriculture and Decent Work'

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- ³⁰ FAO-ILO-IUF (2005) 'Agricultural Workers and their Contribution to Sustainable Agriculture and Rural Development', p.19, and ILO (2008) 'Promotion of rural employment for poverty reduction', p.87
- ³¹ World Food Programme (2008) 'Rising Food Prices – Impact on the Poor', media backgrounder, 10 April 2008.
- ³² Reuters (2008) 'Egypt extends ration cards due to high food prices', by C. Johnson, Cairo, 8 May 2008, available at: www.guardian.co.uk/business/feedarticle/7505359
- ³³ Please see Box 7 for further explanation about this programme
- ³⁴ FAO Newsroom (2008), p.6-7
- ³⁵ OECD International Development Statistics (2007), Creditor Reporting System
- ³⁶ Review of studies of these impacts, see: Haggblade, Steven & Hazell, P. B. R. & Reardon, Thomas, (2002) 'Strategies for stimulating poverty-alleviating growth in the rural nonfarm economy in developing countries', EPTD discussion paper 92, International Food Policy Research Institute (IFPRI)
- ³⁷ Reserve Bank of India, Appendix Table 5: Quarterly Growth Rates and Composition of Real Gross Domestic Product, <http://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/72305.pdf>
- ³⁸ FAOstat, <http://faostat.fao.org/site/567/DesktopDefault.aspx?PageID=567> (accessed 10 August 2008).
- ³⁹ http://www.terradaily.com/reports/Boost_In_Rice_Production_To_Avoid_Food_Shortages_In_Indonesia_999.html (accessed 10 September 2008).
- ⁴⁰ ODI Working Paper 231.
- ⁴¹ Oryza Market Report, Indonesia, 11 November 2004.
- ⁴² Population Project (2001) 'Country Briefs: Mozambique', available at: www.iiasa.ac/at/Research/POP/pde/briefs/mz-agric.html.
- ⁴³ Dependency on US imports has reached 100 per cent for yellow corn, 96 per cent for rice, and 74 per cent for white corn.
- ⁴⁴ Oxfam (2004) 'A raw deal for rice under DR-CAFTA'
- ⁴⁵ FAO (2008) 'Crop Prospect and Food Situation'.
- ⁴⁶ World Bank (2008) G8 Hokkaido-Toyako Summit.
- ⁴⁷ FAO (2008) 'The Breakdown of the Doha Round Negotiations – What Does It Mean for Dealing with Soaring Food Prices?'
- ⁴⁸ For instance, the EU is pushing for comprehensive Economic Partnership Agreements (EPAs), with provisions – including liberalisation of services and investment, stricter intellectual property protections, and other rules – that would prohibit African, Caribbean, and Pacific (ACP) countries from effectively using trade policy instruments to promote national agricultural production and to provide adequate safeguards when necessary. In the

event of import surges occurring, the safeguards contained in the EPA texts are far too weak to be effective. In addition, the EU's EPA proposals do not include any binding commitment to provide additional and predictable financial support, which seriously compromises the capacity of ACP countries to deal with EPA adaptation costs and to tackle their structural constraints.

⁴⁹ Osborne (2005) shows evidence of imperfect competition between intermediaries in local grain markets in Ethiopia. Profits are concentrated amongst intermediaries, while prices to producers drop.

⁵⁰ Research by Susana Gauster for Oxfam.

⁵¹ ECLAC (2007).

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<p>Oxfam GB Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK Tel: +44 1865 473727 E-mail: enquiries@oxfam.org.uk www.oxfam.org.uk</p>	

Oxfam International Secretariat: Suite 20, 266 Banbury Road, Oxford, OX2 7DL, UK
Tel: +44 1865 339100 Email: information@oxfaminternational.org. Web site: www.oxfam.org

Oxfam International advocacy offices:

E-mail: advocacy@oxfaminternational.org

Washington: 1100 15th St., NW, Ste. 600, Washington, DC 20005-1759, USA

Tel: +1 202 496 1170.

Brussels: Rue Philippe le Bon 15, 1000 Brussels, Belgium, Tel: . +32 2 501 6700

Geneva: 15 rue des Savoises, 1205 Geneva, Switzerland, Tel: +41 22 321 2371.

New York: 355 Lexington Avenue, 3rd Floor, New York, NY 10017, USA

Tel: +1 212 687 2091.

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E-mail: comunicación@rostrosyvoces.org

Web site: www.rostrosyvoces.org