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The 2008 Food Price Crisis: Rethinking Food Security Policies

Anuradha Mittal

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PREFACE

The *G-24 Discussion Paper Series* is a collection of research papers prepared under the UNCTAD Project of Technical Support to the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24). The G-24 was established in 1971 with a view to increasing the analytical capacity and the negotiating strength of the developing countries in discussions and negotiations in the international financial institutions. The G-24 is the only formal developing-country grouping within the IMF and the World Bank. Its meetings are open to all developing countries.

The G-24 Project, which is administered by UNCTAD's Division on Globalization and Development Strategies, aims at enhancing the understanding of policy makers in developing countries of the complex issues in the international monetary and financial system, and at raising awareness outside developing countries of the need to introduce a development dimension into the discussion of international financial and institutional reform.

The research papers are discussed among experts and policy makers at the meetings of the G-24 Technical Group, and provide inputs to the meetings of the G-24 Ministers and Deputies in their preparations for negotiations and discussions in the framework of the IMF's International Monetary and Financial Committee (formerly Interim Committee) and the Joint IMF/IBRD Development Committee, as well as in other forums.

The Project of Technical Support to the G-24 receives generous financial support from the International Development Research Centre of Canada and contributions from the countries participating in the meetings of the G-24.

**THE 2008 FOOD PRICE CRISIS:
RETHINKING FOOD SECURITY POLICIES**

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Abstract

This paper examines the 2008 global food price crisis, identifying long- and short-term causes as well as the two factors which distinguish the 2008 food price increases from earlier episodes – speculation and diversion of food crops to biofuels. The paper contends that while most attention has been focused on factors including higher energy costs, decline in growth of agricultural production and increased demand from emerging economies, it is essential to examine the structural causes of growing food insecurity to understand what is really behind the food price crisis. It then explores the impact of several factors including systemic decline in investment in agricultural productivity; state’s reduced regulatory role in agricultural production and trade; indiscriminate opening of agricultural markets which has resulted in import surges, and emphasis on cash crops, on food security of developing nations.

The paper also examines both national and international responses to the crisis and goes on to propose several short-term and long-term measures to address the crisis. The implementation of the proposed policies, the paper argues, however depends on several prerequisites based on the principle of food sovereignty which would allow policy space for developing countries to protect their agriculture, markets, and livelihoods of farmers.

Abbreviations

ADB	Asian Development Bank
CAP	Common Agriculture Policy
CFA	Comprehensive Framework for Action
CFTC	Commodity Futures Trading Commission (of the United States)
DFID	United Kingdom's Department for International Development
EU	European Union
FAO	Food and Agriculture Organization
FTAs	Free Trade Agreements
HIPC	heavily indebted poor country
HLTF	High Level Task Force
IAASTD	International Assessment of Agriculture Knowledge, Science and Technology
IATP	Institute for Agriculture and Trade Policy
IDA	International Development Association
IEG	Independent Evaluation Group
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
IUF	International Union of Food
LDC	least developed country
LIFDC	low income food deficit country
MDG	Millennium Development Goal
MDTF	Multi Donor Trust Fund
MPRS	Malawi Poverty Reduction Strategy
NORAD	the Norwegian Agency for Development Cooperation
OECD	Organisation for Economic Cooperation and Development
OTC	over-the-counter
SALs	(World Bank's) structural adjustment loans
SPs	Special Products
SSMs	Special Safeguard Mechanism
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
USDA	United States' Department of Agriculture
USTR	United States Trade Representative
WB	World Bank
WDR	World Development Report
WEO	World Economic Outlook
WFP	World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

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THE 2008 FOOD PRICE CRISIS: RETHINKING FOOD SECURITY POLICIES

Anuradha Mittal*

I. Introduction

The already grave situation of global hunger was further worsened by the 83 per cent increase in global food prices between 2005 and 2008. While maize prices almost tripled, wheat prices increased 127 per cent, and rice prices increased 170 per cent between January 2005 and June 2008. According to preliminary estimates of the Food and Agriculture Organization of the United Nations (FAO), higher prices pushed an additional 40 million people into hunger in 2008, raising the overall number of undernourished people in the world to 963 million, compared to 923 million in 2007 (FAO, 2008a). FAO has warned that the ongoing financial and economic crisis could continue to augment the number of people living in hunger and poverty.

Soaring food prices have most impacted developing countries, especially the low income food deficit countries (LIFDCs) (Maros and Martin, 2008).¹ Many have seen their import bills increase with higher cereal prices as well as soaring freight

charges. The food import bills of developing countries grew by 56 per cent over 2007/2008 following a 37 per cent increase in 2006/2007. This has also had a negative impact on the balance of payments of the low income food deficit countries (LIFDCs) in general, particularly those in Africa, where the aggregate cereal import bill is projected to increase by 74 per cent (FAO, 2008b), impacting poverty trends and slowing progress towards the Millennium Development Goals (MDGs).

Those most affected by the food price increases in developing countries are the low-income groups within the population – the urban and rural poor who depend on the market to access food products. These groups spend a great proportion of their incomes – up to four-fifths – on food (Hertel et al., 2004). Notably, food represents about 60–80 per cent of consumer spending in poor countries in comparison to 10–20 per cent in rich countries (UNCTAD, 2008). Thus, the food price increases have further undermined the ability of such poor households to meet essential food needs as their budget constraints were very tight even before prices rose (UNCTAD, 2008).

* This work was carried out under the UNCTAD Project of Technical Assistance to the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development with the aid of a grant from the International Development Research Centre of Canada. The paper was improved with input, comments, questions and suggestions from Jomo Kwame Sundaram and Amar Bhattacharya of G24, Anis Chowdhury of UN/DESA, Nikhil Aziz of Grassroots International, Hans Eenhoorn, associate professor for Food Security and Entrepreneurship, Wageningen University, The Netherlands, and Sophie Young of the Oakland Institute. Special thanks go to Frederic Mousseau of Oxfam GB and OI Senior Fellow and Shepard Daniel, OI Fellow, for their substantive contributions.

The latest global trends show food prices finally stabilizing and declining after months of sharp increases. The crisis is, however, far from over. While the prices of major cereals have fallen from their peaks earlier in 2008, they still remain high compared to previous years, making it difficult for many people in developing countries to afford adequate diets (New York Times, 2008a). Forecasts by the FAO, Organisation for Economic Cooperation and Development (OECD) and the United States Department of Agriculture (USDA) project that the recent increases in food prices were not a temporary phenomenon, and suggest that prices for most food crops are likely to remain well above 2004 levels through 2015 (World Bank, 2008a). The FAO Food Price Index was still 28 per cent higher in October 2008 compared to October 2006 (FAO, 2008a).

FAO also estimates that with prices for seeds and fertilizers (and other inputs) doubling since 2006, poor farmers have not managed to increase production. Richer farmers, particularly those in developed countries who could afford these higher input costs, have been able to expand planting. As a result, cereal production in developed countries may have risen by at least 10 per cent in 2008, whereas the increase in developing countries may not even exceed one per cent (FAO, 2008a).

II. Trends in food prices

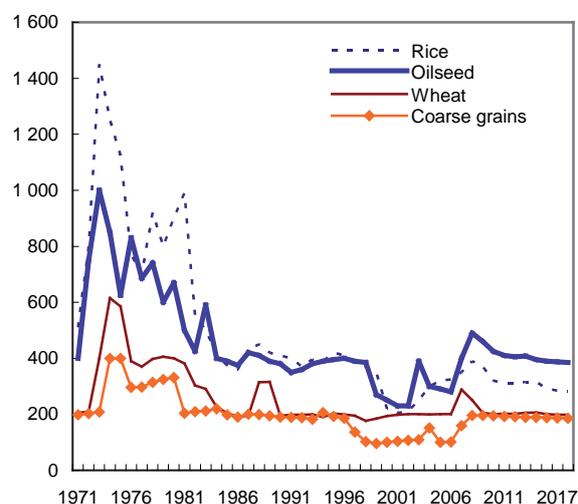
Food prices have been volatile over the last few decades. Chart 1 shows that in 1980, 1983, 1988 and 1996, prices rose over the previous year, as prices trended slightly downward between 1980 and 2002. Prices began to increase steadily after 2001, and by 2004, reached their mid-1980s' level. In early 2006, commodity food prices began to increase rapidly. Chart 2 shows that over the last two years, prices of food commodities rose sharply to a new high, more than 60 per cent above what they were in 2006 (Trostle, 2008).

The recent price rise, which is more "broad based and longer lasting than is usual, contrasts noticeably with the 1980s and 1990s, when most commodity prices were on a downward trend" (Trostle, 2008.). In real terms, the prices of many commodities at the end of 2007 were still lower than in the 1960s and 1970s. The resulting hunger

Chart 1

WORLD FOOD COMMODITY PRICES, 1971–2017

(United States dollars per ton)



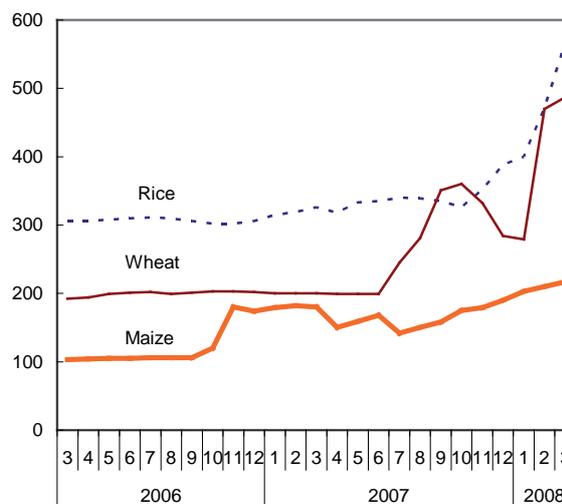
Source: OECD and FAO. *OECD-FAO Agricultural Outlook 2008–2017*: 32.

Note: All prices adjusted for inflation. Real prices deflated by the United States GDP deflator with 2007 base year (April 2008: monthly price quotations).

Chart 2

SELECTED INTERNATIONAL CEREAL PRICES, 2006–2008

(United States dollars per ton)

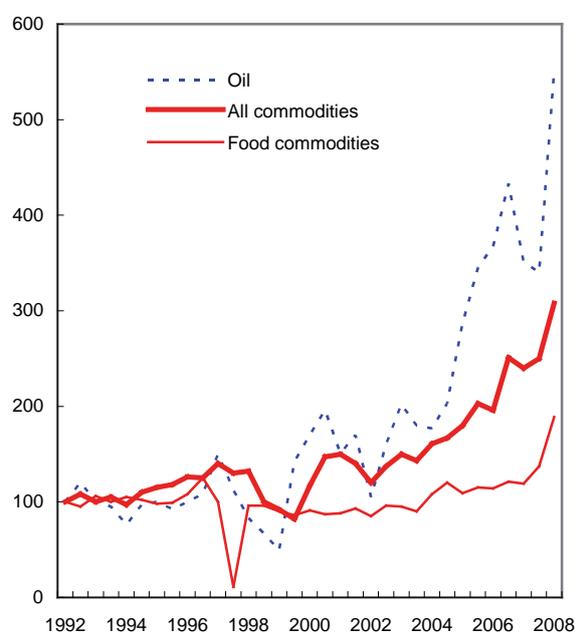


Source: FAO, 2008, *Crop Prospects and Food Situation*, No. 4: 1, October.

Chart 3

COMMODITY PRICE DEVELOPMENT, 1992–2008

(Index numbers: January 1992 = 100)



Source: Trostle, 2008: 4.

is therefore more a result of the rapid rise in prices in a short span of time. It is also an indication of the increased vulnerability of the poor to market volatility, as the poor in developing countries increasingly rely on the market to meet their needs.

The current situation is also unprecedented because price increases for nearly all food commodities have been simultaneously accompanied by record high prices for energy commodities. High food prices this time seem to have a stronger link with high energy prices (South Centre, 2008). “Since mid-1999, when all three indices were at about the same level (and were about where they had been 10 years earlier), food commodity prices have risen 98 percent (as of March 2008); the index for all commodities has risen 286 percent; and the index for crude oil has risen 547 percent” (Trostle, 2008) (chart 3).

Compared to the rises in the price indices for all primary commodities including crude oil, the hike in food prices was not so severe. However, the increases in food as well as energy prices have also adversely

affected the urban middle class, resulting in widespread discontent and protests which have, in turn, generated much international attention and concern.

III. Causes of the food price crisis

Several factors have contributed to increased food prices. These include:

A. Decline in growth of agricultural production

A number of slowly evolving long-term trends, as well as short-term factors, have slowed output growth on the one hand and strengthened demand on the other, causing agricultural prices to increase.

Compared to the period between 1970 and 1990, when the production of aggregate grains and oilseeds rose by an average of 2.2 per cent per year, the annual growth rate since 1990 has declined to about 1.3 per cent. It is estimated that the growth rate of grain production will decline further to 1.2 per cent per year between 2009 and 2017 (Trostle, 2008) (chart 4).

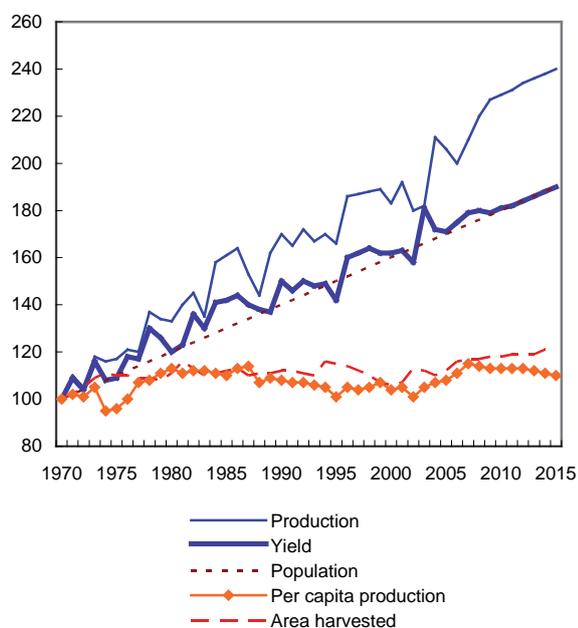
Many factors have contributed to the gradual slowing of output growth. These include the reduction of state intervention in the agricultural sectors of developing countries; reduced public support and overall investment in agriculture; and a decline in research and development by governmental and international institutions.

The decrease in production growth has also been impacted by resource scarcity issues, notably climate change and water depletion. Droughts, floods, and freezing weather due to climate change have cut, and are expected to continue adversely impacting, agricultural output and food security in developing countries² (FAO, 2008c). Adverse weather conditions in 2006 and 2007 in some major grain and oilseed producing areas such as Australia, the European Union (EU) and Ukraine, have been cited regularly as a cause of the recent decline in production. At the same time, water scarcity, which is increasingly dire, has had an impact as well. Each year, 5 to 10 million hectares (25 million acres) of agricultural land are lost because of degradation caused by water shortages (Bloomberg, 2008).

Chart 4

TOTAL WORLD GRAIN AND OILSEEDS OUTPUT

(Index numbers: 1970 = 100)



EXPONENTIAL TREND GROWTH RATES

	1970– 1990	1990– 2007	2009– 2017
Production	2.20	1.30	1.20
Yield	2.00	1.10	0.80
Population	1.70	1.40	1.10
Per capita production	0.56	0.11	0.20
Area harvested	0.15	0.14	0.39

Source: Trostle, 2008: 7.

B. Decline in global grain stocks

A decline has accompanied the decline in global growth grain stocks. The FAO estimates world cereal stocks will have fallen to just 405 million tons by the end of 2008 – down 22 million tons from their already reduced level at the start of the season and their lowest level since 1982 (FAO, 2008c). World wheat stocks dropped to 147 million tons, its lowest level since 1977. Wheat stocks in the United States

are at their lowest level in 60 years, as reductions in exports from other key exporting countries caused the United States exports to soar to cover the global shortfall. Reduced stocks have encouraged the recent rise in speculation in recent years, further fuelling the food price hikes (ADB, 2008).

Several factors are responsible for declining grain stocks. Given that the cost of holding grain stocks is as high as 15–20 per cent of the value of the stock per year (Lin, 2008), government-held buffer stocks have been discouraged after nearly two decades of low and stable prices. Furthermore, there is a general perception of the reduced need for individual countries to hold public grain reserves as agricultural markets have become increasingly liberalized. The private sector and international financial institutions have maintained that holding public stocks is costly and inefficient; the rise of “just-in-time” inventory management and years of readily available global supplies were further incentives to reduce stock holdings (Trostle, 2008).

In addition, agricultural production is weather sensitive, and a drought or flood can reduce output significantly, thereby impacting grain stocks. For instance, adverse weather conditions affected yield potential in Northern Europe, the Russian Federation and the Ukraine in 2007. Six long years of drought in Australia reduced its rice crop by 98 per cent (New York Times, 2008b). Its 2007 harvest of winter grains (mostly wheat and barley) was well below average for the second year in succession. Likewise, severe drought in Morocco in 2007 cut its domestic wheat production by 75 per cent, resulting in an estimated drop of 1.7 million tons in its inventories (FAO, 2008c).

C. Higher energy prices raise production costs

According to the USDA’s cost-of-production surveys and forecasts, doubling of prices of energy intensive components of production, including fertilizer and fuel, increased production costs for the United States corn, soybeans, and wheat by around 21.7 per cent between 2002 and 2007 (Mitchell, 2008). This rise in the cost of production increased the export prices of the major United States food commodities by about 15–20 per cent between 2002 and 2007 (Mitchell, 2008).

D. Increased demand from the emerging economies

The surge in food commodity prices has also been attributed to “strong per capita income growth in China, India, and other emerging economies” which “buoyed food demand, including for meats and related animal feeds, especially grains, soybeans, and edible oils” (IMF, 2008a). President Bush specifically cited the “350 million-strong” middle class in India to argue that its demand for better nutrition was a factor in pushing global food prices up (Prasad and Mittal, 2008). Similarly, USDA has pointed to the “China factor”. At the Africa-India Forum in April 2008, FAO’s Director General Jacques Diouf declared that higher demand from countries like India [and] China, where GDP is growing at 8–10 per cent and some of the increased income is going to food, was responsible for high prices (National Post, 2008).

It seems highly plausible that mass consumption in India and China, two countries accounting for over a third of the world’s population and which grew at 9.2 per cent and 11.4 per cent respectively in 2007, could contribute to the food crisis. However, closer examination reveals otherwise. Demand for food is income inelastic; that is, the quantity of food people demand does not vary significantly with income, though the composition of the food basket changes more. Increased incomes lead to demand for more expensive, presumably “higher quality” e.g. meat, in line with Bennett’s law, i.e. that the share of animal products in calories consumed increases as incomes rise.

Despite such claims, India and China’s role in surging food prices is questionable. A closer look at the case of India reveals that its red meat consumption is still very low for cultural and religious reasons. There has been extraordinary growth in the consumption of milk, eggs, and poultry meat, but per capita consumption of these products is still low: 37 eggs and 1 kg of poultry meat per capita per annum. Also poultry is one of the fastest growing segments of the agricultural sector in India today with the production of eggs and broilers rising by 8 to 10 per cent annually. As a result, India is now the world’s fifth largest egg producer and eighteenth largest producer of broilers (FAO, 2003).

In addition, both India and China maintain a food trade surplus, remaining net exporters of cereals. China has maintained an average food trade surplus of \$4 billion from 2000 to 2006 and has long been

a net exporter of cereals (Berthelot, 2008a). India, too, has been a net exporter of agricultural and food products since 1995. It is also a net exporter of meat and dairy products. In contrast, the EU remains the largest importer of oil seeds and the fifth largest importer of cereals in 2007–2008, while its food trade balance remains in deficit (Berthelot, 2008b).

A report from the World Bank, which principally attributes rising cereal prices to western biofuels policies, puts the developing countries’ role behind the food price crisis in perspective: “Increase in grain consumption in developing countries has been moderate and did not lead to large price increases. Growth in global grain consumption (excluding biofuels) was only 1.7 per cent per annum from 2000 to 2007, while yields grew by 1.3 per cent and area grew by 0.4 per cent, which would have kept global demand and supply roughly in balance” (Mitchell, 2008).

IV. Unique factors in recent food price increase

Two factors distinguish the recent food price increases from earlier episodes:

A. Speculation in financial markets

The futures market is supposed to be a “stabilizing” tool for farmers to sell their harvests ahead of time. In a futures contract, quantities, prices and delivery dates are fixed, sometimes even before crops have been planted. As speculators are supposed to buy when prices are low and sell when prices are high, they serve to make prices *less* volatile rather than more so. However, the greater participation of hedge funds, index funds, and sovereign wealth funds in agricultural commodity markets, has been a key force behind the recent hyperinflation of basic food staples.

Deregulation removed quantitative restrictions on speculative positions in agricultural futures contracts. Regulatory loopholes have also facilitated a surge in speculative investment in commodity markets to unprecedented levels in recent years.³ Also, with the bursting of the housing bubble in mid-2007 and global grain stocks growing low, financial investors saw opportunities in the food commodities markets to diversify their portfolios and improve

returns. The greater demand created by investors' speculation in commodity futures put tremendous upward price pressure on food and energy commodities. For instance, along with corn, rice, and soya, wheat, a commodity increasingly subject to speculative trade in commodity futures exchanges, has been subject to extreme price volatility. "Wheat prices increased by 46 per cent in the short period between January 10 and February 26, 2008, fell by as much by May 19, increased again but to a lesser extent (by only 21 per cent) until a minor peak in early June, and then have been falling again over August" (Ghosh, 2008).

In June, the United States Homeland Security and Governmental Affairs Committee held pension funds responsible for price spikes in commodities markets. According to calculations based on regulatory filings, the amount of fund money invested in commodity indexes climbed from \$13 billion in 2003 to \$260 billion in March 2008 (IUF, 2008). Aggregate commodity prices increased during the same period by more than in any other recorded period in the United States history. The Committee proposed barring schemes with more than \$500m in assets from investing in the United States agricultural and energy commodities in a dramatic bid to lower food and energy prices. The proposed bill, the Commodity Speculation Reform Act of 2008, passed in the United States House of Representatives with major revisions in September 2008.

B. Biofuels

A prominent difference between the current food price crisis and earlier ones is the increase in demand for coarse grains due to biofuels production in the United States and the EU. Biofuels and the related consequences of low grain stocks, large land use shifts, speculative activity, and export bans, have been held responsible for the 70–75 per cent increase in food prices (Mitchell, 2008). While Brazil is also a significant producer of biofuels, its sugar cane-based ethanol production has not contributed appreciably to the increase in food prices (Mitchell, 2008).

High oil prices in recent years, together with concerns over energy security and climate change, have led to the promotion of the production and use of biofuels as a supplement to transportation fuels (chart 5). Biofuels have received a further boost through generous policy support (subsidies and tariffs

on imports) and ambitious mandates. The 2007 United States Energy Bill almost quintupled the biofuels target to 35 billion gallons by 2022, while the EU aims to use biofuels for 10 per cent of its transportation fuels by 2020. The European Union, the largest biodiesel producer, began to increase biodiesel production in 2005⁴ while the United States ethanol production began to rise rapidly in 2002 and jumped from 1 billion gallon in 2005 to 5 billion in 2006 and is estimated to reach 9 billion in 2009. Between 1980 and 2002, the amount of corn used to produce ethanol in the United States rose by 24 million metric tons.⁵ Between 2002 and 2007, the quantity of the United States corn used to produce ethanol increased by 53 million metric tons, accounting for 30 per cent of the global growth in wheat and feed grains use (chart 6) (Trostle, 2008).

As ethanol production has expanded, corn stock levels have declined and corn prices have increased. According to Keith Collins, chief economist at the USDA, the United States stocks-to-use ratio from corn dropped from a 24 per cent average (for 1980 to 2004) to 11.1 per cent in 2007–08 – the equivalent of a little over one month's supply. "In 2008/09, [the stocks-to-use ratio] is expected to drop to 5.4 per cent, only 20 days of supply and the second lowest level in 49 years of records." According to Collins, "there is little prospect of a return to the historical ratio because demand for corn is increasing, and the market is tight. Simply stated, the United States and global grain economies are at risk" (Collins, 2008).

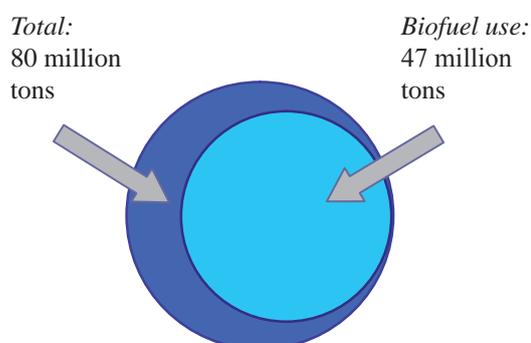
Without these increases, it is estimated, that "global wheat and maize stocks would not have declined appreciably, oilseed prices would not have tripled, and price increases due to other factors, such as droughts, would have been more moderate. Recent export bans and speculative activities would probably not have occurred because they were largely responses to rising prices" (Mitchell, 2008).

Many sources have recognized biofuels production as a major driver of food prices. For instance, the *World Economic Outlook* (WEO) 2008 published by the International Monetary Fund (IMF), states, "Although biofuels still account for only 1.5 per cent of the global liquid fuels supply, they accounted for almost half the increase in the consumption of major food crops in 2006–07, mostly because of corn-based ethanol produced in the United States. Biofuel demand has propelled the prices not only for corn, but also for other grains, meat, poultry, and dairy through

Chart 5

DEMAND FOR BIOFUELS, 2005, 2007 AND 2017

Rise in use for coarse grains



Use of vegetable oil, 2005-2017

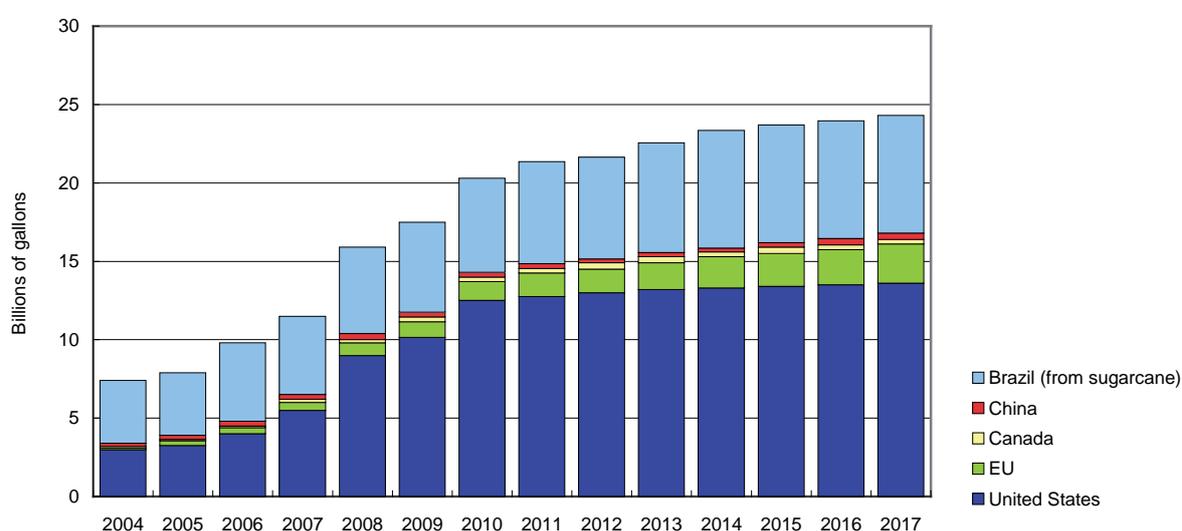
(Millions of tons)

Total:			
• 2005	96		
• 2007	105	(+9.2 per cent)	
• 2017 (est.)	143	(+49.5 per cent)	
of which for biofuel:			
• 2005	4		
• 2007	9	(+113.9 per cent)	
• 2017 (est.)	21	(+388.0 per cent)	

Source: OECD-FAO, *Agricultural Outlook 2008–2017*: 39–44.

Chart 6

ETHANOL PRODUCTION,^a 2004–2017



Source: Trostel, 2008: 15.

^a Mostly from grain-feed stocks, except for Brazil.

cost-push and crop and demand substitution effects” (IMF, 2008a).

The United States Department of Agriculture has also acknowledged that the “increase in the

United States ethanol production over the past 5 years and the related significant changes in the structure of the United States corn market might have had a more pronounced impact on the world’s supply and demand balance for total coarse grains” (Trostel, 2008).

Significantly, land use changes due to expansion of acreage under biofuel feed-stocks reduced production of other crops. For instance, the United States rice production decreased by 12 per cent from 2006 to 2007 after 16 per cent of the land used for rice production was redeployed for corn production (Berthelot, 2008a). Corn expansion also resulted in a 16 per cent decline in land for soybeans, thereby reducing the United States soybean production, leading to a 75 per cent rise in soybean prices between April 2007 and April 2008 (Mitchell, 2008).

Similarly, the expansion of biodiesel production in the EU diverted land from wheat to oilseeds, slowing the increase in wheat production. The eight largest wheat-exporting countries expanded land area for rapeseed and sunflower production by 36 per cent between 2001 and 2007, while the wheat land area fell by 1.0 per cent. The wheat production potential of this land was 26 million tons in 2007 and totalled 92 million tons from 2002 to 2007 (Mitchell, 2008). Chart 7 shows the relationship between wheat stocks and prices.

Today, with only a few countries exporting most staple cereal grains such as corn, rice, and wheat, the least developed countries (LDCs) and other developing

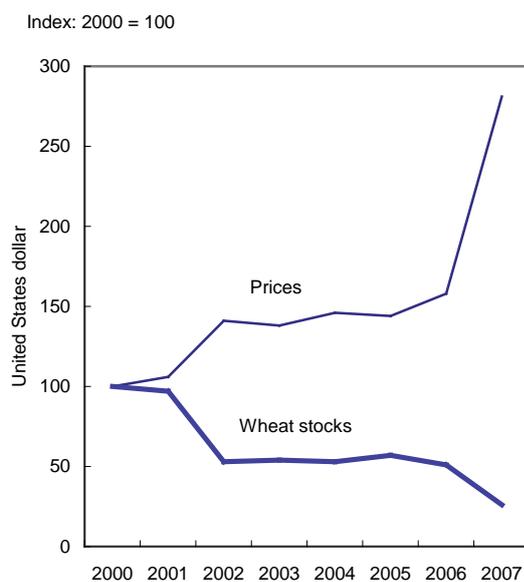
countries largely rely on imports from these countries. The United States, Argentina, and Brazil account for 90 per cent of world corn exports; Thailand, Viet Nam, the United States, Pakistan and India have 80 per cent of world rice exports; while the United States, Canada, the Russian Federation, Argentina and the European Union are responsible for 74 per cent of world wheat exports (USDA, 2008). Any changes in the policies of the major cereal exporting countries have a significant impact on world markets. Since the United States is the world's largest corn exporter, higher prices resulting from increased United States demand for biofuel production have spilled over onto world markets, triggering an international crisis.

V. Long-term structural factors behind the food price crisis

While the factors cited above have generated most attention, failure to examine the structural causes of growing food insecurity leads to incomplete understanding of what is behind the food price crisis. Short-term factors have also reduced supplies resulting in price increases. Nevertheless, it is also essential to understand the long-term factors that have allowed developing countries to become so vulnerable to supply changes caused by short-term factors.

Chart 7

WHEAT PRICES VERSUS STOCKS, 2000–2007



Source: Mitchell, 2008: 12.

A. Decline in investment in agricultural productivity

Findings from the World Bank's 2008 *World Development Report* (WDR), "Agriculture for Development", show that for the poorest people, agricultural growth has been about four times more effective in raising the incomes of extremely poor people than GDP growth outside the sector (Ligon and Sadoulet, 2007). In the same vein, a recent report from Oxford Policy Management, based on evidence from six case-study countries, concluded that public expenditure on agriculture has been associated with promoting economic growth and relieving poverty in rural areas (Oxford Policy Management, 2007). Despite such evidence, that investment in agriculture results in growth and poverty reduction, spending on agriculture as a share of total public spending in developing countries fell by half between 1980 and 2004 (Jiang, 2008). The situation is especially severe in sub-Saharan Africa, a region heavily reliant on

agriculture for overall growth, where public spending for agriculture accounts for only 4 per cent of total government spending and the sector is still taxed at relatively high levels (World Bank, 2007). In many African countries, spending on agriculture relative to GDP is well below the target set by the 2003 Maputo Declaration of Heads of State and Government of the African Union, which established that 10 per cent of budgetary allocations should go to agriculture and rural development by 2008.

This trend of under-investment from agriculture started during the 1980s and 1990s when the World Bank's structural adjustment loans (SALs) promoted reforms in agriculture and finance. As conditions for receiving new loans or for restructuring existing debt, these reforms reduced the role of the public sector in agricultural marketing, eliminated agricultural input and food subsidies, special credit facilities for agriculture, and agricultural promotion agencies including national grain reserves and marketing boards. Government expenditure on agriculture fell sharply. Poor public investment, in turn, led to a lack of private investment (Cleaver and Donovan, 1995).⁶

Deregulation of the financial sector in many countries led to the closure of rural bank branches. This exacerbated the urban bias in loan allocation enabling rural savings to finance urban credit, thereby adversely impacting financing for agriculture (Chowdhury, 2002).

In several countries, failure to adhere to IMF and World Bank (WB) conditionalities triggered temporary (and sometimes permanent) postponements of cash releases and changes in commitments from other donors. These externally imposed conditionalities prevented developing countries, especially African nations, from making much needed investments in agriculture. National government funding of agricultural research fell by 27 per cent in sub-Saharan Africa between 1981 and 2000, with many governments currently allocating less than 1 per cent of their national budgets to the sector. Today, only two countries, Rwanda and Zambia, have adhered to the 2003 Maputo Declaration by allocating 10 per cent of their budgets to agricultural and rural development.

Many countries have reduced and even eliminated support for farm credit, crop distribution, and reserve programmes. Elimination of seed and fertilizer subsidies, a keystone of World Bank austerity policies, resulted in African farmers abandoning

higher-yield seeds with resulting decline in crop yields and production. When Zambia eliminated its corn seed and fertilizer programmes, corn acreage and fertilizer application both declined sharply (World Bank, 2002).

At the same time, multilateral investment in agricultural projects in poor countries and agricultural research by the governments of rich nations and institutions such as the World Bank have steadily declined (Jomo, 2008). USAID, the United States development agency, cut agricultural aid by 75 per cent in the past two decades. Just 4 per cent of current development aid to Africa goes to agriculture, and agricultural research grants were cut by more than half – from \$6 billion a year to \$2.8 billion – between 1980 and 2006, with the United States alone decreasing its contribution from \$2.3 billion to \$624 million (Jomo, 2008).

In addition, the World Bank decreased its lending for agriculture from \$7.7 billion in 1980 to \$2 billion in 2004 (Jomo, 2008). The Independent Evaluation Group (IEG) report on the Bank's agricultural programmes in sub-Saharan Africa between 1991 and 2006 found that the Bank channelled only \$2.8 billion in lending to agriculture, constituting just 8 per cent of its lending to the region (box 1).

Underinvestment in agriculture by national governments and international donors and the conditionalities they imposed have prevented the poorest developing countries from developing viable farm sectors, thereby eroding their ability to maintain agricultural production and only increasing their reliance on imported food.

B. Reduced state regulatory role in agricultural production and trade

During the 1970s, the World Bank promoted the development and support of a variety of agricultural marketing and processing parastatals especially in Africa. In the 1980s and 1990s, it strongly encouraged the withdrawal of such government roles, for instance, through elimination of agricultural marketing boards.

Marketing boards were supposed to manage the stock of food at the national level. Marketing boards were tasked with buying agricultural commodities from farmers at fixed prices (more than sufficient

Box 1**MALAWI'S FERTILIZER SUBSIDY PROGRAMME (NYT, 2007; Chinsinga, 2008)**

In the 1980s and 1990s, the World Bank and donor countries pushed Malawi to eliminate fertilizer subsidies, converting it from a country with an agricultural surplus to one with a substantial food deficit.

During the 2004 electoral campaign, both the ruling party and the opposition bloc pledged to introduce a universal fertilizer subsidy programme. However, the fear of not qualifying for debt relief through the Malawi Poverty Reduction Strategy (MPRS), which required fiscal prudence and discipline, prevented the government from implementing the programme. When a disastrous corn harvest in 2005 threatened the country again, with almost five million of its 13 million people needing emergency food aid, the government responded by reversing some of the market-oriented policy reforms and introducing a bold farm-subsidy programme. Not surprisingly, donors argued that subsidies would undermine the long-term effort to reform and liberalize the agricultural economy, and the Malawian Government was forced to bear the full cost of the programme.

The result of this intervention, aided by favourable rains, has been described as “spectacular”. Corn production leapt to 2.7 million metric tons in 2006 – more than the annual national requirement of 2.1 million metric tons – and to 3.4 million in 2007 from 1.2 million in 2005.

This success of the 2005–2006 subsidy programme is beginning to change the attitudes of some donors. During 2006, a group of donors, including USAID, DFID, and the World Bank commissioned studies to learn from the lessons of the 2005–2006 experience. The United Kingdom’s Department for International Development (DFID) and the Norwegian Agency for Development Cooperation (NORAD) supported the 2006–2007 continuation of the Malawi programme.

The United States has shipped \$147 million worth of American food as emergency relief since 2002 and \$53 million to help Malawi grow its own food. The United States has not, however, provided any financial support for the subsidy programme beyond helping to pay for its evaluation. The World Bank now sometimes supports the temporary use of subsidies aimed at the poor and carried out in a way fostering private markets.

to cover the costs of production), keeping the commodities in a rolling stock, and releasing them onto the market in the event of a bad harvest in the following years. Marketing boards also organized the redistribution of food from surplus to deficit areas of the country. By preventing price volatility, marketing boards protected both producers and consumers against sharp rises or drops in prices, prioritized self-sufficiency, and thus reduced the need for food imports and for foreign exchange earnings to pay for them.

However, marketing boards also had their problems. In many developing countries, especially in Africa, they were found to be inefficient, over-staffed, and frequently corrupt. Often, inefficiencies in the state-run marketing system squeezed farm-gate

prices. They also burdened state budgets. Thus, the donor/lender-sponsored reform or elimination of marketing boards appeared reasonable, especially from the point of view of balancing the state budget.

After over two decades of economic liberalization and related reforms, however, the promised or expected gains in growth and stability are yet to be seen. The recent food crisis and the vulnerability of food-insecure developing countries underscore the fact that the goals of state intervention, particularly in staple crop marketing, remain valid. Therefore, it seems clear that reforms should have been aimed at improving the efficiency and reducing the waste associated with marketing boards instead of closing them down completely (box 2).

Box 2**DOING AWAY WITH MARKETING BOARDS**

In the 1970s and 1980s, Indonesia focused on increasing agricultural production, with the goal of accomplishing self-sufficiency in rice, which was achieved in 1984. Rice production grew by nearly 150 per cent between 1968 and 1989, increasing production from less than 12 to over 29 million metric tons (FAO Stats). This policy combined protection and regulation measures for the rice market as well as research and dissemination of high-yield varieties of rice, provision of agricultural inputs (seeds & fertilizers) to farmers, and investment in rural infrastructure and irrigation.

Playing a key role in this endeavour was Badan Urusan Logistik Nasional (BULOG), a parastatal agency created in 1967 that was in charge of the marketing and distribution of rice in the country. BULOG used price floors to support producers and price ceilings to protect consumers. Through a dense network of offices and warehouses, BULOG would buy food from farmers, then store, sell and distribute food commodities according to the need and market supply situations. The parastatal agency was thus able to ensure the availability of rice at affordable prices for consumers throughout the archipelago.

Yet, for many years, Indonesia was encouraged to reduce state intervention in agricultural production and markets and to reduce import tariffs. It was argued that state intervention was ineffective and costly, while liberalization was expected to benefit consumers through cheaper imports, and to benefit Indonesian farmers by boosting the value of their export crops.

Adhering to this advice, the Government of Indonesia liberalized food trade in 1998, reduced the mandate of BULOG to its rice operations alone, and removed fertilizer subsidies and marketing restrictions. This policy, however, increased costs of production for producers and reduced farmers' incomes due to competition with cheap imports in local markets. Livelihoods further deteriorated with the Asian financial crisis in 1997 and 1998. As a result, the country became the world's largest importer of rice and the largest recipient of international food aid in 1998 – it received 885,000 and 822,000 metric tons of food aid in 1998 and 1999 respectively (World Food Programme, 2008).

The liberalization policy was strongly opposed by farmers. In 2002, the government decided to reverse its policy and to curb imports of rice while encouraging domestic production through higher tariffs. Soon, Indonesia's food production was back on track. With an import ban on rice (enforced in spite of the recommendations of international institutions), Indonesia became self-sufficient in rice once again in 2004.

Despite many criticisms of BULOG (such as its monopoly for other crops and a high level of corruption during the late Suharto era), there is a general consensus that BULOG was successful in stabilizing food price and production, thereby contributing to poverty reduction in Indonesia. Therefore, the current food price crisis questions the validity of the common argument of international experts that "greater integration into the international market would [...] reduce the variability of food prices" and reduces the costs of food supplies (Gill et al., 2003).

C. Removal of agricultural tariffs and resulting import surges

A recent fact sheet from the United States Trade Representative's (USTR) office states: "Trade is a powerful tool to generate income gains that can dwarf foreign assistance. ... The World Bank estimates that low and middle income countries would realize 50 per cent of their potential economic gains from global free trade in goods, by the elimination

of their own barriers" (USTR, 2008). However, in most cases, the opening of markets has taken away the ability of developing countries to govern the flow of agricultural imports into their market.

Heavily subsidized agriculture has allowed industrialized countries to capture developing country markets by dumping commodities below their costs of production. In 2003, the United States exported wheat at 28 per cent below the cost of production,

Box 3**THE EXPERIENCE OF GHANA (Khor, 2008a)**

From the 1960s through the 1980s, Ghana's Government promoted self-sufficiency in food by actively encouraging the agricultural sector through marketing, credit, and subsidies for inputs.

However, under pressure from the World Bank and International Monetary Fund (IMF) in the 1980s and 1990s, the policies for self-sufficiency were reversed. Input subsidies were eliminated, the state trading enterprise (Ghana Food Distribution Corporation) was phased out, the system of guaranteed minimum prices for rice and wheat was abolished, and many state agricultural trading enterprises as well as the seed agency (responsible for producing and distributing seeds to farmers), were eliminated. Notably, the 13.6 per cent of loans from commercial banks to the agricultural sector in 1993 dwindled to one per cent by 2004. At the same time, applied tariffs for most agricultural imports were reduced significantly to the present 20 per cent. These measures left local farmers unable to compete with imports artificially cheapened by high subsidies, especially rice, tomatoes, and poultry.

These changes increased Ghana's rice imports from 250,000 tons in 1998 to 415,150 tons in 2003, an increase of 70 per cent. Domestic rice, which had accounted for 43 per cent of the domestic market in 2000, captured only 29 per cent of the domestic market in 2003. In all, 66 per cent of rice producers recorded negative returns, leading to loss of employment. Not only were rice farmers squeezed out of the market, but also other players in the value chain including traders, millers, transporters, etc. In response, the government wanted to raise tariffs on rice imports from 20 per cent to 25 per cent. This tariff increase was removed after four days under pressure from the IMF.

Ghanaian farmers, who receive little state support, have to compete with farmers and agro business companies in developed countries (such as the United States and the EU) who are heavily subsidized. In 2003 alone, the United States Government provided rice subsidies worth \$1.3 billion; 57 per cent of U.S. rice farms would not have covered their costs if they did not receive subsidies. In 2000–2003, the average costs of producing and milling the United States white rice was \$415 per ton, but it was exported for just \$274 per ton, 34 per cent below cost. Notably, Ghana is among the top ten importers of rice from the United States with Ghana's imports of the United States rice totalling 117,600 metric tons in 2003 – approximately 30 per cent of all rice imports.

Ghana's poultry sector was at its prime in the late 1980s, but declined steeply in the 1990s due to the withdrawal of government support and the reduction of tariffs. Poultry imports rose by 144 per cent between 1993 and 2003, and a significant share of this was heavily subsidized by Europe. The EU provides 43 billion Euros in subsidies to its farmers each year under the Common Agricultural Policy (CAP). In 2002, fifteen European countries exported 9,010 million tons of poultry meat for 928 million Euros, at an average of 809 Euros per ton. It is estimated that the total subsidy on exported poultry (including export refunds, subsidies for cereals fed to poultry, etc.) was 254 Euros per ton (Khor, 2008b).

Between 1996 and 2002, EU frozen chicken exports to West Africa rose eight-fold, mainly due to import liberalization, practically wiping out the half million chicken farmers in Ghana. In 1992, domestic farmers supplied 95 per cent of Ghana's market, but this share fell to 11 per cent in 2001. In 2003, Ghana's parliament raised the poultry tariff from 20 to 40 per cent, still much below the bound rate (allowed by the World Trade Organization) of 99 per cent. However, the IMF objected to this move and the new approved tariff was not implemented.

soybeans at 10 per cent below the cost of production, corn at 10 per cent below the cost of production, cotton at 47 per cent below the cost of production, and rice at 26 per cent below the cost of production (IATP, 2005).

The flood of cheap farm imports, often from countries where agriculture is heavily subsidized, has made subsistence farming in many developing countries (especially in Africa) uncompetitive and financially unstable. Often, farmers leave – or are

forced to leave – their land as a result. The FAO Briefs on Import Surges document up to 12,167 import surges between 1980 and 2003 in 102 developing countries – with “devastating consequences for the rural poor and local economies in Africa” (IPS, 2008). In addition to Africa, food import surges have affected developing countries in South and Southeast Asia, Latin America and the Caribbean. While each country is affected in different food markets, the narratives remain strikingly similar: an import surge of a food staple displaces the domestic market, thereby decreasing domestic production and employment by startling percentages (box 3).

According to the United Nations Conference on Trade and Development (UNCTAD), current high international food prices are expected to bring about yet another episode of food import surges, which have become more frequent in LDCs in the post-trade liberalization era (UNCTAD, 2008). Countries whose local agricultural base were impacted by the

dumping of cheap grains (e.g. in the form of food aid) and by cheap subsidized imports from richer nations subsequently experienced shortages because the markets upon which they have come to depend have seen changes in national food supply policies. The United States and European biofuel policy is a case in point: corn production dedicated to biofuels, instead of food, compounds scarcity in terms of both its market availability and food aid availability.

D. Shift to export crops

An estimated 43 developing countries (of which three-quarters are LDCs) depend on a single commodity (sugar, coffee, cotton lint or bananas) for more than 20 per cent of their total revenues from merchandise exports (chart 8) (FAO, 2004). The national leaderships in these countries have failed to restructure their economies, with their current economies continuing

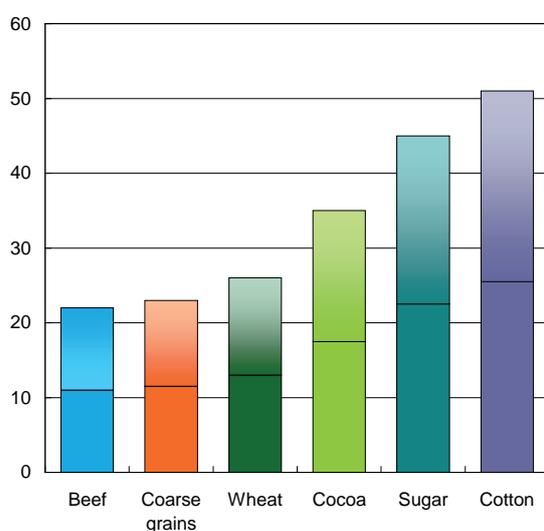
Chart 8

TRENDS IN NOMINAL WORLD PRICES FOR SELECTED COMMODITIES

(Average of annual deviation for trend, percentage)

INSTABILITY OF NOMINAL WORLD PRICES FOR SELECTED COMMODITIES, 1986–1999

Commodities traded by developing countries tend to be more volatile than temperate zone products exported by developed countries



DECLINE IN NOMINAL PRICES FOR SELECTED COMMODITIES, 1980–2000

Several of the commodities exported by commodity-dependent countries have experienced steep declines over the past two decades.

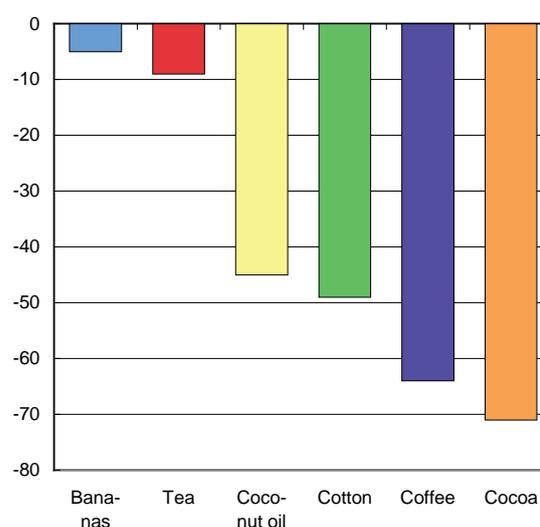
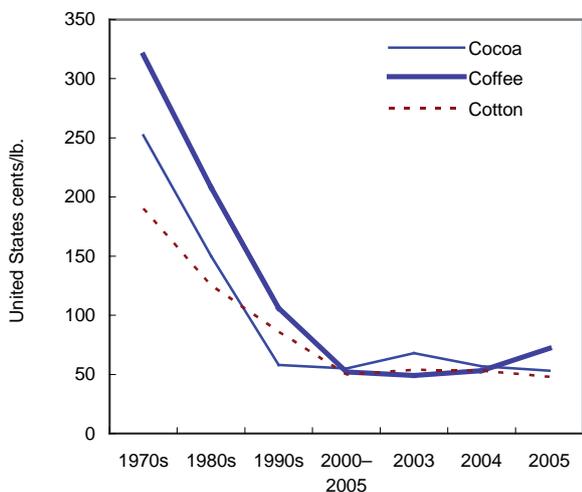


Chart 9

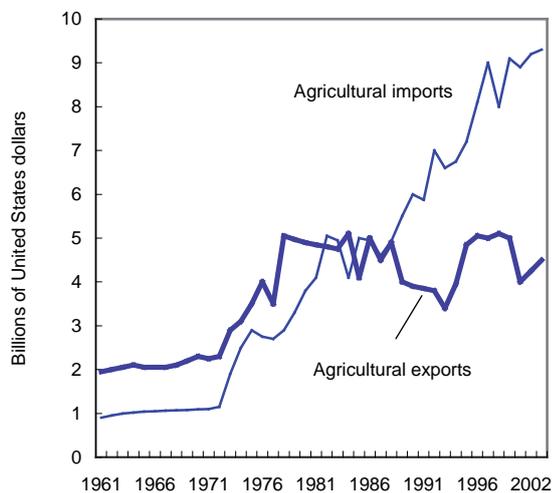
COCOA, COFFEE AND COTTON PRICES



Source: FAO, 2006: 33–36.

Chart 10

AGRICULTURAL TRADE BALANCE OF LEAST DEVELOPED COUNTRIES, 1961–2002



Source: Wik, Pingali and Broca, 2007.

Note: Chart adapted from FAO and FAOSTAT data.

to reflect the legacies of colonial plantation-based production and trade structures. Policy conditionalities or advice by donors/lenders, which tout the benefits of trade liberalization regardless of circumstances, have only reinforced these structures.

The real prices of these commodities are volatile (charts 8 and 9), and as a direct consequence, commodity-dependent countries are subject to great risk, which affects macroeconomic performance as well as household income distribution (Bourguignon, Lambert and Suwa-Eisenmann, 2004). For example, Uganda's vulnerability was exposed as coffee prices in 2002 fell to less than a third of their 1997 level. Uganda, a country that implemented the trade and economic reforms proposed in the 1990s and increased coffee production for export rather than enhance food security, saw many of the gains wiped out by the decline of world coffee prices.

According to the FAO, "declines and fluctuations in export earnings have battered income, investment, and employment in these countries and has left many of them deeply in debt". 37 out of 42 countries identified as heavily indebted poor countries (HIPC) by the IMF and World Bank, rely on primary commodities for more than half of their merchandise export earnings. More than half the world's cocoa and more than a quarter of its coffee are produced in countries classified as HIPC (FAO, 2004). FAO also contends that if the prices for the ten most important (in terms of export value) agricultural commodities exported by developing countries had risen in line with inflation since 1980, these exporters would have received around \$112 billion more in 2002 than they actually did. This is more than twice the total amount of aid provided worldwide (FAO, 2004).

Specialization in a few commodities for export such as coffee or cocoa has increased developing countries' dependence on food imports from developed countries, converting developing countries from net food exporters to net food importers (chart 10) (FAO, 2004). "In the 1960s, developing countries had an overall agricultural surplus of \$7 billion. By the 1970s, imports had increased and the surplus had shrunk to \$1 billion. By the end of the 1980s, however, the surplus had disappeared. Most of the 1990s and 2000s saw developing countries develop into net food importers. The deficit in 2001 was \$11 billion" (Action Aid International, 2008).

Liberalization of markets and diverting resources from food crop production to cash crop investments has particularly impacted Africa. The region has seen twice as many new acres of cotton production as new acres of corn, and fifty per cent more new acres of cocoa beans than new acres of millet since

the WTO went into effect in 1995 (Food and Water Watch, 2008). In the absence of international markets for traditional African crops like sorghum, cassava, yams, and millet, farmers have been encouraged to grow cash crops like coffee, sugar, cocoa beans, tea, and cotton for export. Accordingly, export earnings are used to purchase food, often low-priced imports from industrialized countries, even as this process displaces small farmers. As a result, with prices of imported food rising, there is insufficient domestic production in many countries to provide food for local markets.

VI. Responses to the food price crisis

An estimated 41 countries have lost 3 to 10 per cent of their GDP to rising food, fuel and commodity prices since January 2007. Over 30 countries were hit by food riots, as the impact of the crisis reached the household level. A crisis of this magnitude has thus evoked both national and international responses (chart 11).

A. National government action

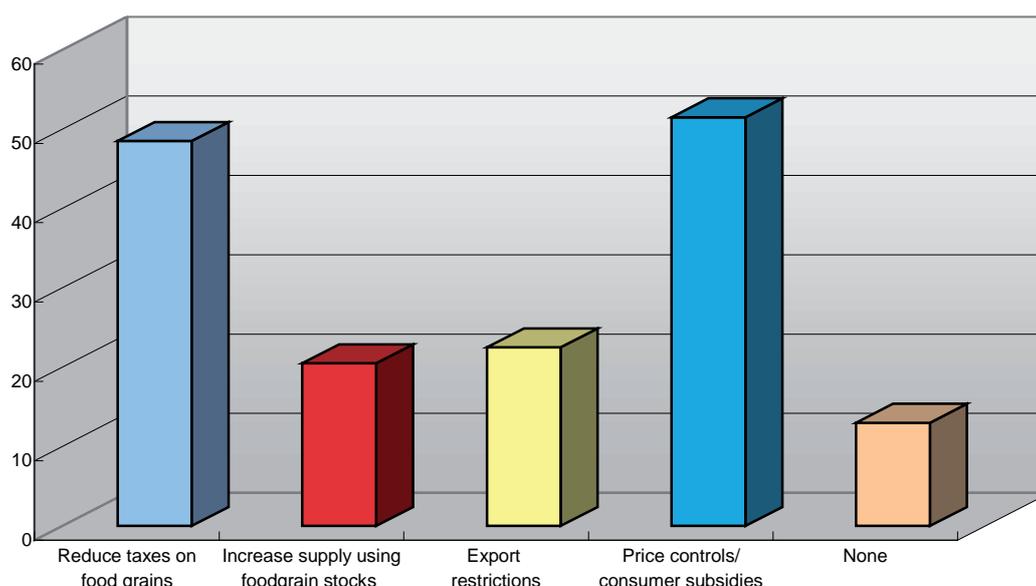
Widespread discontent has mobilized governments to take actions to avoid political instability. According to the FAO, a survey of policy responses in 77 countries shows that during 2007 and early 2008, “approximately half of the countries reduced cereal import taxes and more than half applied price controls or consumer subsidies in an attempt to keep domestic food prices below world prices” (FAO, 2008d). The same survey demonstrates that one-quarter of the governments took action to increase supply, drawing down food grain stocks. Only 16 per cent of countries surveyed had no policy responses to mitigate the impact of soaring food prices.

Some 40 countries, including Cambodia, China, India, Egypt and Viet Nam imposed bans or restrictions on exports of food. Others imposed price controls, broke contracts, and halted trading to make food available in domestic markets and to contain food price inflation. Such moves came under much criticism and were held responsible for further increasing prices, by decreasing supply to international

Chart 11

POLICY ACTIONS TO ADDRESS HIGH FOOD PRICES

(As percentage of total countries in sample)



Source: FAO, 2008e: 2.

Note: Based on preliminary information drawn from a partial list of countries collected by World Bank regional staff and amended to reflect additional information collected by FAO country staff (April 2008).

markets. However, such moves sought to protect national populations, including the poor and vulnerable, against the global agricultural price shocks by ensuring national food availability below world prices before allowing exports to other countries.

VII. International responses

A. Donor nations

The Group of 8 (G8) released a statement on global food security in July 2008 calling for greater investment in the agricultural sector. Proposed measures included doubling aid for key food staples in Africa over the next five to ten years, improving infrastructure (roads, irrigation, storage, and distribution), rapid financing to address food price-related balance-of-payment difficulties, implementing sustainable food security and biofuels policies, and supporting country-led strategies to address climate change. Unfortunately, the G8's credibility is low given they still have not met their 2005 aid commitments.

According to the United Nations estimates, \$25–\$40 billion was required to meet needs arising from the food price crisis. At the June 2008 High Level Conference on Food Security in Rome, \$12.3 billion was pledged. However, only a little more than \$1 billion has been disbursed by the end of 2008 – “in stark contrast to the response to the financial crisis, where huge financial resources have been mobilized by the international community in a matter of days” (Oxfam, 2008a).

B. High Level Task Force (HLTF) on the Global Food Crisis

In April 2008, a High Level Task Force (HLTF) on the Global Food Crisis was established under the leadership of the United Nations Secretary-General to bring together the Heads of the United Nations specialized agencies, funds and programmes, and Bretton Woods institutions. The United Nations task force produced a Comprehensive Framework for Action (CFA), but there is a lack of leadership and coordination in its implementation. Different global level initiatives have been launched where there should have been one United Nations-coordinated

international response, which could have more effectively channelled funds to those in need and ensured more coordinated implementation of longer-term reforms.

C. The World Bank

To respond to the challenges posed by the food price crisis, the World Bank has proposed a *New Deal on Global Food Policy* to promote social safety nets, school-feeding programmes and reduced trade barriers. Other measures include:

- *Global Food Crisis Response Facility*: In response to its own estimates that the world's hardest-hit countries require a total of \$10 billion in the short term for safety nets and agricultural support, the Bank created this \$1.2 billion rapid financing facility to address immediate needs in the International Development Association (IDA) and International Bank for Reconstruction and Development countries (World Bank, 2008b).
- *Single Donor Trust Fund*: This \$200 million trust fund has been created to provide rapid assistance to the most fragile, poor and heavily-impacted countries and territories with little access to immediate funding. Access to the trust fund is capped at \$10 million for each country and is geared towards projects that will support safety nets for the most vulnerable, provide micronutrients to fight malnutrition, ensure rapid provision of seeds and fertilizer to small farmers, and compensate for sharp reductions in fiscal revenues in some countries.
- *Multi Donor Trust Fund*: To help other development partners support country efforts to address the crisis, the Bank set up a Multi Donor Trust Fund (MDTF). Although supposedly designed to complement the emergency food assistance activities of the WFP, FAO, and International Fund for Agricultural Development (IFAD), the Fund has been used to provide food aid and immediate support for production such as the purchase and distribution of seeds and fertilizer (which clearly overlaps with the responsibilities of the United Nations Rome-based agencies).
- *Boost in Agricultural Support*: The World Bank Group is boosting support for global agriculture to \$6 billion from \$4 billion over the

coming year. Lending for agriculture in Africa will increase from \$450 to over \$800 million, and in Latin America from \$250 million to over \$400 million; the Bank will also continue to support over \$1 billion of new projects in agriculture and rural development in South Asia. In addition, the Bank is also providing policy, technical and research advice to countries, recommending a range of interventions, including the distribution of seeds and fertilizers, the construction of rural infrastructures, and international assistance to agriculture.

However, despite some useful insights in its flagship 2008 World Development Report, the World Bank fails to critically reform the model of agricultural development it has promoted over the past thirty years. Even the Independent Evaluation Group (IEG) report on the Bank's agricultural programmes in sub-Saharan Africa between 1991 and 2006 concluded: "despite its presence for more than two decades in several countries, Bank support has so far not been able to help countries increase agricultural productivity sufficiently to arrest declining per capita food availability" (Bretton Woods Project, 2007).

Expressing concern over countries "reverting to the food policies of the 1970s (food self-sufficiency at any cost, costly strategic grain reserves, reversal of diversification policies, etc.), which would eventually be harmful to both poverty alleviation and food security" (Delgado, 2008), the Bank, instead, recommends market-based instruments to respond to market failures. It continues to recommend the creation of an enabling environment to stimulate private sector led-investment in agri-business and to push hard for an ambitious Doha round characterized by a sharp reduction of producer subsidies and import tariffs.

The Bank fails to realize that beyond emergency interventions to deal with high food prices, proactive agricultural and trade policies must be designed and implemented by governments in developing countries. After all, large food exporting countries have developed their agriculture through a mix of interventionist and protectionist policies. As observed by Michel Barnier, Minister of Agriculture and Fisheries of France, Europe after the Second World War had no choice other than an effective food sovereignty policy aimed at making the continent self-sufficient for its supply of cereals (Barnier, 2008).

Ending state intervention in agriculture in developing countries has been strongly encouraged

by the World Bank and the International Monetary Fund over the past thirty years. Indeed, state intervention has not always been efficient and has had its weaknesses, as acknowledged earlier. Yet, the importance and positive impact of such interventions for agricultural development and the protection of the small farmers and consumers are well recognized. Given the role state intervention can play, it would have been better to focus on improving agencies such as the marketing boards instead of completely dismantling them.

For instance, price stability, ensured by grain marketing parastatals in Asia, mitigated risks and gave farmers some degree of certainty in allocating their land in favour of crops for which prices were guaranteed (IFPRI, 2005). This had a positive impact on agricultural development and substantially increased economic growth in the countries studied (IFPRI, 2005). Moreover, IFPRI observes that it was necessary for the practice of floor prices (minimum prices paid to farmers for their production of certain commodities) to accompany the increase in food production and productivity, sought through different policy measures. Without this support, prices would have collapsed at times of good harvests (e.g. Ethiopia in 2001, when thousands of small farmers lost their livelihoods after their best cereal harvest in a decade which led to the collapse of prices).

Different arguments have been put forward to promote the withdrawal of state intervention in the agricultural sector in developing countries including the high cost and ineffectiveness of public interventions. A specific argument against the use of grain reserves is that global food markets have become larger and less volatile (Dawe, 2004), thereby allowing countries to buy into global markets, rather than storing domestically-produced food. The current crisis has shown that reliance on global markets can be dangerous, making import-dependent nations very vulnerable to supply shock or to the diversion of production from exporting countries to other markets (e.g. biofuels).

D. The International Monetary Fund

The IMF is considering requests for financial assistance and is providing policy advice to governments to deal with the crisis. It is important to note that while the Fund, in general, "does not provide

policy advice on agriculture, or any productive sector (that's the preserve of the World Bank and other donors)," some Fund-supported programmes involve sector-specific reforms (for example, the reduction or elimination of subsidies to food agriculture) (IMF, 2008b).

Along with the World Bank, the Fund continues to advocate keeping global food markets open to deal with the crisis (Plant, 2008). It has also pressed for a speedy conclusion to the Doha Round of trade talks, including agreements on agriculture "to broaden and stabilize international food trade and foster efficient agricultural production" (Plant, 2008).

E. Doha Round: a solution to the food crisis?

Conclusion of the Doha Round is likely to increase the level and volatility of food and agriculture prices. Measures previously available to governments to soften the effects of price volatility (such as controlling import and export volumes, managing domestic stocks, using price control and price support tools, consumer subsidies, rationing systems, etc.) have been either banned or discouraged by economic liberalization reforms. The Doha Round will further restrict tools available to governments to achieve food security objectives. For instance, an April 2008 proposal on export restrictions would amend current rules to require, prior approval of such measures before they can be implemented in the future. This would restrict the capacity of governments to allocate domestic output to the domestic market in food emergency situations.

It has been suggested that with the conclusion of the Doha Round, tariff reduction would increase access to food at the global level. However, the majority of the population in countries classified as having "widespread lack of access" is unable to procure food due to their low incomes (FAO, 2008b). In rural areas, where agriculture is the main occupation for most of the poor as well as "a source of purchasing power, there is no guarantee that increased imports will lead to increased food security" (South Centre, 2008).

The projected gains from the Doha Round offer most developing countries very little despite all the rhetoric about it being a "Development Round". According to the World Bank's own exercises,

developing country benefits would be just 16 per cent of total world gains, or 0.16 per cent of GDP. This amounts to less than a penny per day per capita for the entire developing world. Poverty reduction – which in itself would be very limited – would reach only 2.5 million people (Gallagher and Wise, 2008). Dani Rodrik has pointed out that recommendations to conclude the Doha negotiations ignore World Bank estimates that the prices of coarse grains, wheat and rice will rise between 4 and 7 per cent (relative to all other prices) following such a trade deal with the complete removal of all trade restrictions. More importantly, "most developing countries and regions do not benefit from agricultural liberalization in terms of overall real income, and the effects are highly differentiated. Argentina, Brazil, and some ASEAN countries, notably Thailand, are the main winners. The losers include many of the world's LDCs, including Bangladesh and the countries of East Africa as well as the rest of sub-Saharan Africa" (Polaski, 2006). These projections do not include many of the costs of implementing the Doha Round, which UNCTAD estimates to be as much as four times the projected gains.

The World Bank's 2008 *World Development Report* (WDR) on "Agriculture for Development," echoed similar concerns, expressing particular concern for "food-importing countries with tight foreign exchange constraints". The 2008 WDR acknowledged that trade liberalization generates winners and losers, and "the overall effect of trade policy reform on farm incomes of food staple producers in the poorer developing countries is likely to be small" (World Bank, 2007). UNCTAD's 2008 *Least Developed Countries Report* states: "Frequently LDC farmers have been negatively affected by trade liberalization. ... The agricultural trade balance has worsened particularly strongly since the mid-1990s, as a high number of LDC producers have found it difficult to compete in their own markets for many key foodstuffs following trade liberalization" (UNCTAD, 2008). This is largely due to export and domestic subsidies in developed countries, exacerbating unfair competition for developing countries in world agricultural markets. According to the July 2008 proposed WTO agriculture modalities, conclusion of the Doha Round will allow subsidies to continue at relatively high levels. In July 2008, WTO members could not agree on the modalities to conclude the Doha Round. The failure was best summed up by India's Commerce Minister, Kamal Nath: "It is unfortunate that in a development Round we couldn't run the last mile

because of an issue concerning livelihood security” (BBC, 2008).

F. The International Assessment of Agricultural Knowledge, Science and Technology (IAASTD)

The *International Assessment of Agricultural Knowledge, Science and Technology for Development* (IAASTD) – an independent, multi-stakeholder, and evidence-based assessment of agriculture (involving over 400 authors) – offers more promising alternatives. Approved by 58 governments in Johannesburg in April 2008, the report concluded that a radical change to agriculture policy and practice is needed to address hunger and poverty, social inequities, and environmental sustainability. The report highlights the following issues:

- (i) The need for a systematic redirection of investment, funding, research and policy focus towards the needs of small farmers.
- (ii) The need to safeguard natural resources and agro-ecological practices, as well as the wide range of traditional knowledge held by local communities and farmers, which can work in partnership with formal science and technology.
- (iii) The need for massive investment in agriculture, both in physical infrastructure (such as irrigation and roads) and so-called “soft” infrastructure, such as facilitating access to markets and credit provision; and
- (iv) The immediate need for attention to the growing involvement of women in agriculture in many developing countries.

The IAASTD report acknowledges that market forces alone cannot deliver food security to the poor. It particularly emphasizes that developing countries should be accorded special and differential treatment in agricultural trade, especially on grounds of ensuring food security, farmer livelihoods and rural development.

In the wake of the growing hunger and ecological crisis, the report provides policy options that could make a difference. However, it will require a

concerted effort of governments, civil society and the co-sponsoring agencies of the IAASTD, particularly the FAO, World Bank, UNDP and the United Nations Environment Programme (UNEP), to move the paradigm of food security back to policies that invigorate the food agricultural sector, particularly in developing countries, and “consider them in a broader development framework and link them to variables such as food trade, energy security, and climate change” (South Centre, 2008).

VIII. Conclusion

The World Health Organization (WHO) calls hunger and under-nutrition the number one threat to public health, killing more people than HIV/AIDS, malaria and tuberculosis combined. Every ten days the world loses 250,000 people to hunger related deaths, the equivalent of the casualties from the Asian tsunami. The vast majority of those casualties—160,000—will be children.

Josette Sheeran
Executive Director
World Food Programme (WFP)

Chronic hunger afflicts hundreds of millions of people. Latest figures from the Food and Agriculture Organization (FAO) estimate that nearly 1.02 billion people are undernourished worldwide. The number has been increasing at a rate of almost four million per year since the second half of the 1990s, rendering the goal of the 1996 World Food Summit – to halve the number of undernourished people, 815 million then by 2015 – far-fetched.

While global hunger and under-nutrition has been worsening for over a decade, the 2008 food price crisis may serve as a wake up call that agriculture is fundamental to the well-being of all people, both in terms of access to safe and nutritious food and also as the foundation of healthy communities, cultures and environments. Urgent action is necessary and will require both short-term and long-term measures. A few policy measures can help address the food crisis and help ensure food sovereignty of developing nations.

The following short-term measures can help reduce the adverse effects of increased prices:

A. Provision of emergency assistance

The crisis has required emergency responses. The provision of immediate food aid is vital to prevent hunger and malnutrition. While the \$755 million extra funding for the World Food Programme (WFP) will allow the agency to maintain its operations at their 2007 level, an additional \$15 to \$20 billion a year is needed to address the roots of the food crisis (United Nations, 2008). Unfortunately, rich nations have not come up with the needed finances to meet this need.

It is essential that aid be in cash whenever possible “in kind” food aid has often introduced cheap food imports undermining local food production. Local or regionally procured food aid also means lower costs and faster delivery. The OECD estimates an extra \$750 million would be available if rich countries gave food aid in cash rather than in kind.

B. National safety nets for the poor and most vulnerable

National schemes should provide the poorest with resources to meet their basic needs as well as protect them against shocks through minimum income guarantees, public work programmes and direct assistance.

Donor countries should provide more aid urgently to support government efforts in poor countries to deal with the current crisis and in response to appeals from the United Nations agencies. Foreign aid to Africa fell by 40 per cent during the 1990s and the commitment of 0.7 per cent of the GDP has never been reached; except by a small handful of countries. The World Bank and other international financial institutions, as well as the G8 have called for greater investment in social protection in developing countries, but this can only come about with changed aid, macroeconomic, tax and other policies.

Medium and long-term measures include:

(i) Review of biofuels policies

While biofuels present both opportunities and risks, it is necessary that countries review their biofuels policies to ensure that they are environmentally, economically, and socially sustainable without exacerbating the food prices crisis.

It is thus necessary that countries adopt policy measures to protect the poor and food insecure, environmental sustainability and broad-based rural development (FAO, 2008f). Decisions about biofuels should take into consideration national food security, participation by small farmers in biofuel production, access to affordable technology, as well as the use of natural resources such as land and water.

The United States and the EU need to halt current programmes and urgently review government supported biofuels programmes, mandates, tax incentives, other subsidies and their consequences, food security and prices. Their policies – such as the mandated use of ethanol, which ensures a permanent, significant, and increasing demand for corn – has resulted in even higher food prices.

(ii) Increased public funding for agriculture

Policies that help affected countries develop their own agricultural sectors actually feed more people and decrease developing country dependence on food imports in the long run. Also addressing agricultural development in poor countries is an opportunity for alleviating poverty given many of the poorest countries are still dependent on agriculture for income and jobs.

(iii) Increased support for small farmers and staple foods production

Tackling hunger requires that small farmers in developing countries are supported so they can provide for their own populations. This will serve to both reduce rural poverty and help ease the crisis. As pointed out by Oxfam, there are also strong efficiency arguments for investing in the developing world’s 400 million smallholder farmers whose smallholdings have higher productivity per area than their larger counterparts. Besides preserving biodiversity and conserving water, these farms also spend more on locally manufactured goods and services (Oxfam, 2008b). It is also essential to support farmers in improving productivity through sustainable production techniques.

(iv) Ensure Policy Space for Developing Countries’ Food Security

Developing countries that have signed or are in the process of negotiating free trade agreements (FTAs) should ensure that the FTAs provide enough

policy space so they are able to calibrate their agricultural tariffs in such a way as to ensure that the local products can be competitive, farmers' livelihoods and incomes are sustained, and national food security assured. For instance, this means support for the G33's Special Products (SPs) and Special Safeguard Mechanism (SSM) proposal at the WTO.⁷

This means that they must be allowed to reduce tariffs when appropriate, e.g. when prices rise, but also to maintain or even increase such tariffs when imports threaten their food security or the survival of the food sector. In the short term, countries are faced with the dilemma of ensuring low food prices for consumers through the decrease or removal of tariffs and taxes on imported food, or supporting their own farmers and food production, with less resources available from tax revenue on imports. Countries should have the flexibility to be able to impose import tariffs to protect local production and, the resources to invest in food production.

(v) *Build national/regional food reserves*

Poor countries that rely on food imports should be provided support to build up their food reserves, either nationally or regionally if more appropriate.

(vi) *Ensure access and control over resources and services*

Government intervention is also required to improve access to land, seeds, fertilizers, farm credit, storage facilities, and marketing institutions (e.g. marketing boards), and the management of national or regional food stocks, all essential to mitigate the effects of fluctuations in food production on producers and consumers. No country developed its agriculture without such protection and support.

Notes

- 1 A sample of household data for eight low-income countries, analysing the impact of higher prices of key staple foods on poverty, showed that in six of the countries considered, increases in food prices between 2005 and 2007 were associated with significant increases in poverty.
- 2 For instance, FAO reports that multiple year droughts caused "exceptional shortfalls in aggregate food production/supplies" in Lesotho and Swaziland. In Nigeria and Ghana, the decline of coarse grain production led

to tight food supply that affected rising food prices in Benin, Burkina Faso, Ghana, Niger, Nigeria and Togo. Following China's harshest ice rains, snow, and freezing weather since 1951, millions of hectares of vegetable and oil crops were "severely damaged," and "as of the end of January [2008], about 90 million people were reported to be directly affected". The harsh winter impacted livestock production in Mongolia as well. The villages of the Northern Atlantic Autonomous Region in Nicaragua, affected by powerful hurricane Felix in September 2007, are receiving international food assistance for the gradual recovery of their livelihood systems.

- 3 In 2000, the Commodity Futures Modernization Act effectively deregulated commodity trading in the United States, by exempting over-the-counter (OTC) commodity trading (outside of regulated exchanges) from the Commodity Futures Trading Commission (CFTC) oversight. Soon after this, several unregulated commodity exchanges opened. These allowed any and all investors, including hedge funds, pension funds and investment banks – to trade commodity futures contracts without any position limits, disclosure requirements, or regulatory oversight.
- 4 The United States mostly uses corn as feedstock for bioethanol, while the EU, the largest biodiesel producer, uses rapeseed oil as its main feedstock for biodiesel.
- 5 Ethanol is produced from sugar crops, such as sugar cane or beet, or starchy crops such as maize. Biodiesel is produced from vegetable oils or animal fats.
- 6 The decline in public investment in agriculture is part of the decline in overall public investment as governments were forced to balance their budgets. Budget deficits can be repaired in two ways (and by some combination of both): (1) increase revenue, and (2) reduce expenditure. Increasing revenue is difficult due to both structural and political reasons. On the expenditure side, it is easier to cut investment rather than operational expenditure for political reasons. So, most developing countries took the easier route of cutting public investment. The late Dr. Patel, the former Governor of the Reserve Bank of India, warned about this in the early 1990s. See Patel IG (1994), "Limits to the Current Consensus on Development" *Proceedings of the World Bank Annual Conference on Development Economics*, 1993: 1–6.
- 7 At the WTO, the G33, a coalition of 46 countries, a grouping led by Indonesia, has been highlighting concerns of food security, rural livelihoods and rural development, and the problem of import surges besides pushing for SPs and SSM for protection. The G33 have proposed 'gentler' treatment for at least 20 per cent of their tariff lines in the Doha Round and for these to be designated as "special products". Given the diverse circumstances of the countries in the grouping, the countries themselves will designate the products to be classified as SPs, using indicators that reflect food security, livelihood security, and rural development criteria. The coalition has come under intense pressure from various quarters interested in market access to relax their SP position. While the SPs provide long term exemption, the SSM is a shorter-term mechanism, in place for about a year each time it is activated, using both volume triggers and price triggers, to help developing countries cope with fluctuations in prices and import surges.

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