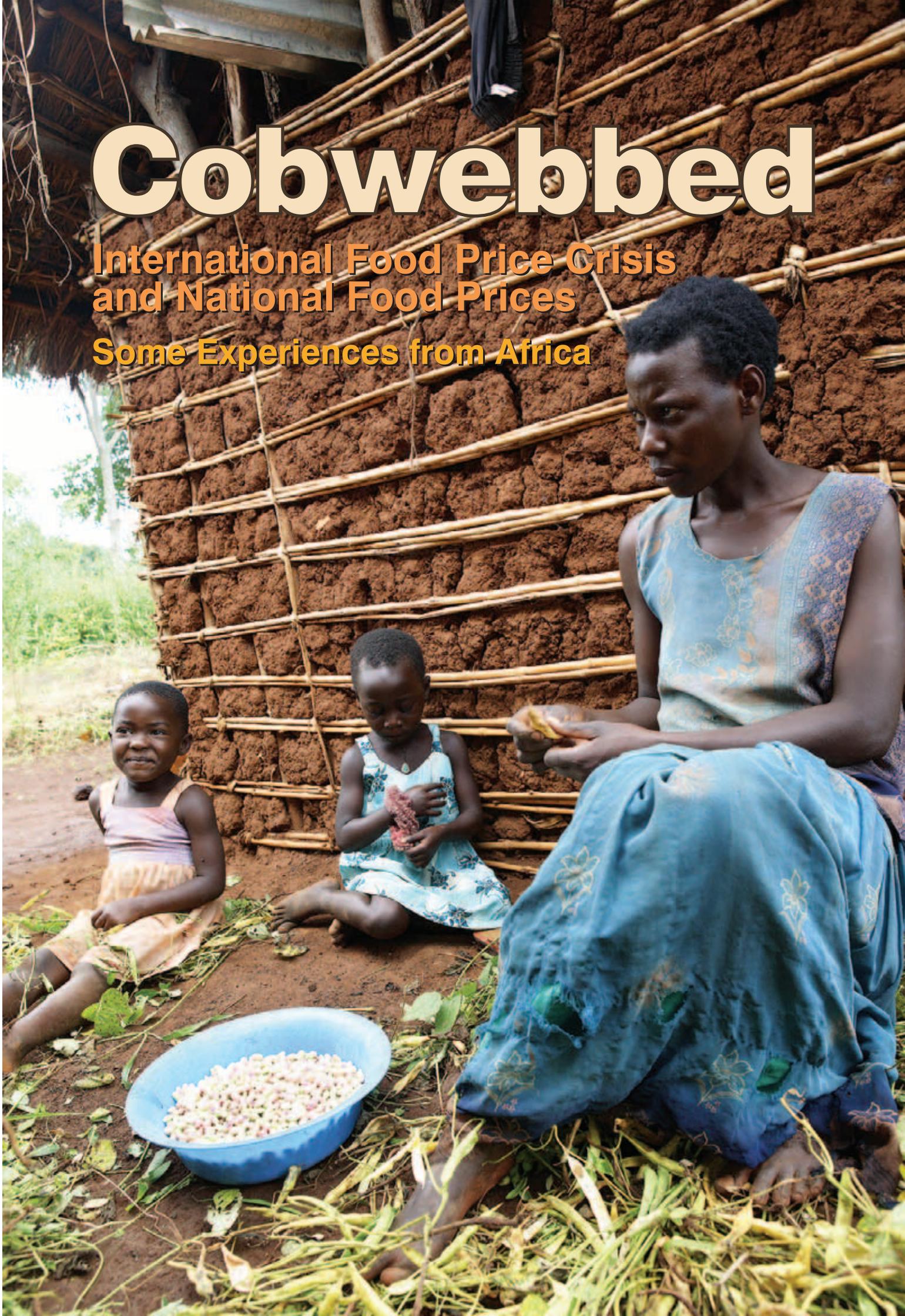


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International Food Price Crisis
and National Food Prices

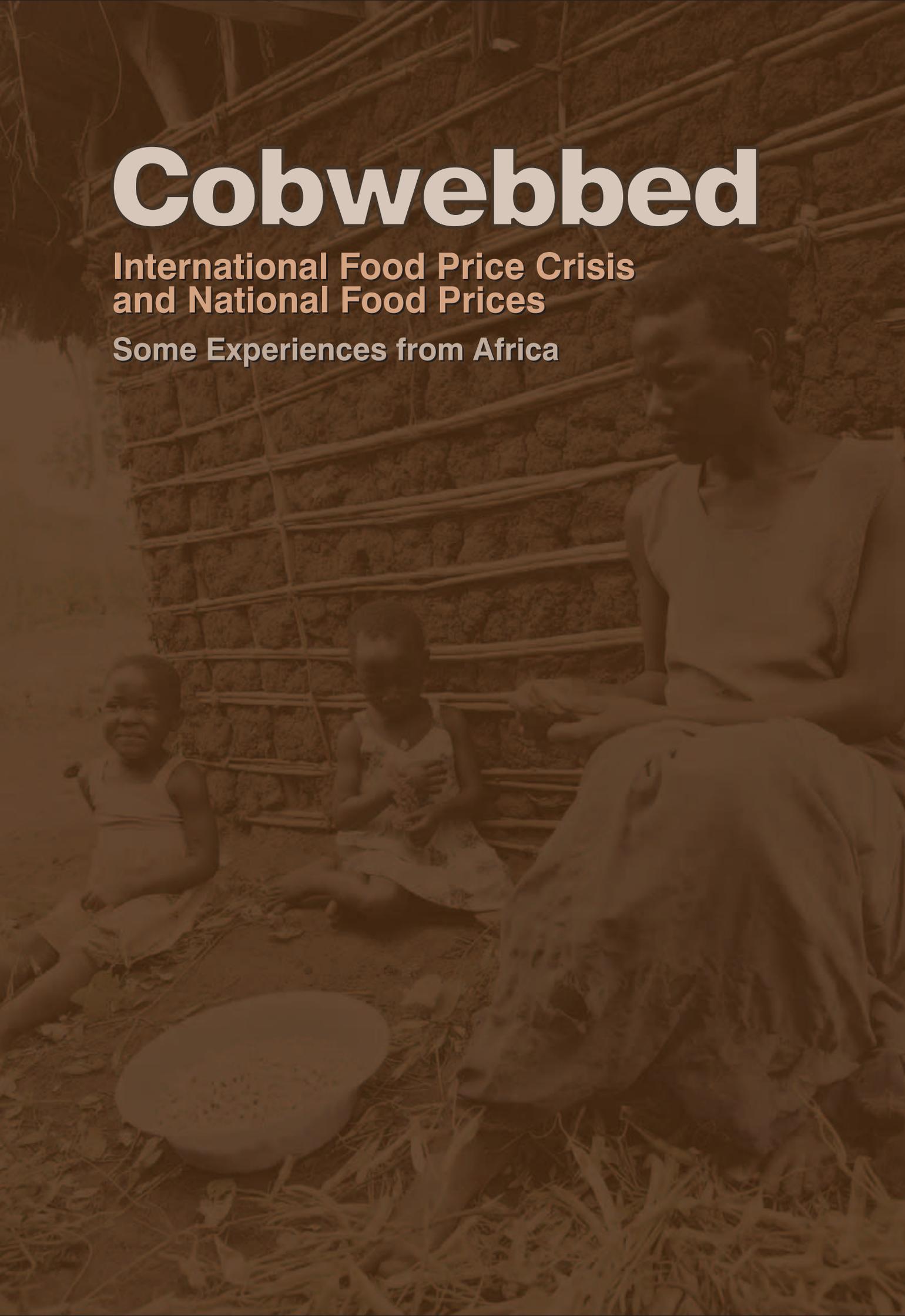
Some Experiences from Africa



Cobwebbed

**International Food Price Crisis
and National Food Prices**

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Acronyms

ARM	Agence de Régulation des Marchés (Agency for Market Regulation)
AU	African Union
CAADP	Comprehensive Africa Agriculture Development Programme
CIRAD	Centre de coopération internationale en recherche agronomique pour le développement
CNCR	Council National de Concertation et de Coopération des Ruraux
CSOs	Civil Society Organisations (CSOs)
CFS	Committee on World Food Security
ECOWAS	Economic Community of West African States
FAO	Food and Agriculture Organization of the United Nations
FEWS NET	Famine Early Warning Systems Network
GOANA	Grand Offensive for Food and Abundance
IFSN	International Food Security Network
LDCs	Least Developed Countries
NAADS	National Agricultural Advisory Services
NEPAD	New Partnership for Africa's Development
ODA	Overseas Development Assistance
ODI	Overseas Development Institute
RESOGEST	Network of Structures for the Management of National Food Security Stocks in the SAHEL and West Africa Region
ROPPA	Réseau des organisations paysannes & de producteurs de l'Afrique de l'Ouest (Network of Farmers' and Agricultural Producers' Organisations of West Africa)
SOFI	State of Food Insecurity
VAT	Value Added Tax
WFP	World Food Programme
WTO	World Trade Organization
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme



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1

Executive summary

“I would simply like to recall that food security and sovereignty are the basis of our general development, as all of the African governments underline. It is a strategic challenge. This is why we must build our food policy on our own resources as is done in the other regions of the world. The G8 and the G20 can in no way be considered the appropriate fora for decisions of this nature¹.”

In a letter to the African Union from ROPPA
(Network of Farmers' and Agricultural Producers' Organisations of West Africa)

It is increasingly clear that the shock of the 2007-2008 food crisis, and the subsequent persistent high and volatile prices in international markets for agricultural commodities, had widely varying effects at the national and local levels in the countries of the Global South. Much analysis still has to be done, but ActionAid has been documenting these effects for several years already. This paper is a product of that work. The paper draws on three case studies carried out over 2011 that looked at the effects and responses to the food crisis in Senegal, Uganda, and Burkina Faso. The paper also draws on other studies, some of them commissioned by ActionAid. The paper provides an overview of what caused high and volatile prices in international food commodity markets, the major causes of national food price increases, the winners and losers within countries when food prices are high and volatile, and then looks at some of the responses from national governments before concluding with some recommendations.

The causes of the international price crisis of 2007-2008, and the continuing existence of volatile and high prices in international commodity markets, have been discussed and debated at some length. Differing explanations arise in part according to what timeframe is considered – there were immediate supply and demand shocks, but also the cumulative effects of longer-term trends that undermined the resilience of food production and food markets, making them vulnerable to short-term shocks. Key causes recognised in the literature² include:

- Declines in stocks to use ratios of some of the most heavily consumed grains
- Long-term decline in investment in agriculture
- Diminishing productivity growth from green revolution technologies such as hybrid seeds
- Climate-induced supply shortfalls, specifically the increased incidence of droughts and floods
- Depleted soils and water tables resulting from unsustainable production
- Explosive growth in demand triggered by the expansion of biofuels from about 2004
- Increased oil and fertiliser prices
- Speculation in oil and food commodity futures markets

1. Translated from French for the author. Available at <http://www.iatp.org/documents/roppa-letter-to-the-president-of-the-ua>

2. See FAO reports, IFSD reports, Actionaid researches published from 2007 till now



Photo: Sylvain Cherkakou / ActionAid

Prices in international markets did not have the same effect on all developing countries. Broadly speaking, price increases in Africa were dramatic, whereas in much of Asia they were contained, especially in the larger, wealthier countries³. Much of Latin America is net-food exporting (the exceptions are the Caribbean islands, Mexico, El Salvador and Venezuela). For net-food exporters, and not just in Latin America, higher prices meant greater returns to agriculture and some producers were able to benefit. But high levels of inequality among producers within many countries meant smallholder producers were less likely to see the benefits of higher prices when they sold their produce. The majority of producers in the world are small-scale. Many of them are net food consumers at least part of the year and they are too poor to afford food at

significantly higher prices. At the same time, any producer that used off-farm inputs, such as hybrid seed or fertiliser or petrol, saw his or her production costs increase dramatically, eroding the gains from higher crop prices.

Domestic food markets in Sub-Saharan Africa are prone to price shocks of their own as well, caused by unstable supply and demand. Many countries experience wide fluctuations in their production year by year and suffer from high levels of post-harvest losses. Demand is uncertain because of the high incidence of poverty. Market failures⁴ are common too, caused by a variety of factors ranging from inadequate transportation options, to a lack of transparency in markets, to poor trade policies. Never have so many countries depended as much on international markets for a large share of their food supplies. This dependence gave the price crisis in international markets a new importance for domestic food markets in the South. This direct connection to national markets created unique challenges for national governments. The case studies that were prepared as background for this report highlight some of the different ways these challenges played out. For example, Uganda, as relatively food self-sufficient and a frequent exporter within the region, made different policy choices than the more import-dependent Burkina Faso and the still more dependent, but also better connected, Senegal.

3. FAO (2011), State of Food Insecurity, pp 8-9. Rome.

4. A market failure occurs when any of the conditions required for a well-functioning competitive market are not met. Examples include monopolisation or cartelisation of markets, the presence of significant positive or negative externalities, or poorly informed buyers.



Photo: SOS Sahel Burkina Faso

For several decades, many Civil Society Organisations (CSOs) – peasant organisations in particular – argued that higher prices for food producers were needed to eradicate poverty. A number of agricultural economists agreed with them and some governments, such as Indonesia and India, had policy interventions directed at maintaining prices above a set base level, much as the European Union and the United States had done for decades. Many governments, however, set food prices very low. This was part of the reason for the decline in investment in agriculture and for falling productivity levels in some regions. The lack of investment also contributed to the out-migration of rural populations in search of employment in cities or abroad; and, for poor performance rates in overall economic growth, especially in the many least developed countries (LDCs) that depend heavily on agriculture for capital formation and employment. Yet when world prices jumped in 2007, the commentary on the effect of higher agricultural prices on levels of food insecurity was bleak – there was a tension between the longer-term benefits higher prices could confer and their short-term costs. Many small-scale producers are net food buyers, at least at certain times of year, and higher prices for their crops were not sufficient to offset the higher costs of buying food. Input prices rose sharply in 2007-2008, especially fertiliser and oil prices, creating an immediate cost barrier to increasing output for many smaller commercial farmers. Additionally, there was a big gap between international prices and national or local prices: the asymmetries of market power created by small and concentrated food distribution and marketing sectors created “choke points” where profits accrued, at the expense of both consumers and producers.

National governments had no choice but respond to the effects of the food price crisis. While the detail of how the crisis played out in each country varies significantly, they all found themselves facing higher food and energy prices. Many countries suffered a crisis in public confidence as well, with riots breaking out in over 30 countries. The three case studies show, however, that while donors developed a single list of policy prescriptions for developing country governments, the crisis played out differently in different countries. Some prescriptions, such as increasing investment in agricultural productivity, were already underway: the Maputo commitment by African Union governments to spend a minimum of 10 percent of the national budget on agriculture, for example, was made in 2003. ActionAid has documented impressive increases in Africa's production of some of its non-traded food staples between 1990 and 2005, including a 69% increase in cassava, 53% increase in millet and 107% increase in sorghum⁵. However, this increase was not enough to overcome relatively high volatility in production from year to year in most African countries.

The two dominant responses to the 2007-2008 crisis were to invest in raising agricultural productivity and to revamp existing social safety nets or create new ones where necessary. Other policies that emerged included new investments in

5. Background paper on Food Prices in Developing Countries Since 2008, P7, Actionaid International



storage facilities and grain reserves, as countries sought to manage their dependence on international markets more carefully; a new look at trade policy and border measures, in response to exporters limiting supply when prices are high; and renewed consideration of the unequal market power of traders, although without much clear gain. Some governments have also taken steps to encourage the creation of farmers' organisations, although in Senegal, it appears the government has gone around the existing, independent, farmers' organisations and created their own, more pliant, structure. More encouragingly, public investments in agriculture have reached post-harvest processing and storage, road construction, and local and regional (sub-national) grain reserves, acknowledging that supply is only one piece of the puzzle.

It is of critical importance that African governments build national food security strategies which are truly comprehensive, that take a long-term view, and that start with a commitment to the empowerment of food producers and workers in food systems.

Recommendations for governments:

1. Prepare crisis responses with a view to food systems as a whole including - but not limited to - production problems and safety nets;
2. Public actions should improve and strengthen market linkages, including distribution systems, purchasing power and storage facilities;
3. Governments should undertake comprehensive risk assessment to better understand where vulnerability arises (including climate change, dependence on food imports, etc.) to inform strong national food security strategies;
4. Establish social protection programmes that protect and rebuild household resilience rather than create new forms of dependence—this implies working with the large population in many developing countries that moves in and out of poverty, not just the poorest households;
5. Price stabilisation schemes should be revisited because of their proven development benefits, and because of the possibility of using new technologies to better manage storage and distribution issues;
6. Trade rules should be reformed to build confidence of low-income net-food importing countries in trade, including suitable protection for domestic production, strengthened regional trade and a more robust multilateral framework to discipline exporters' use of bans and taxes;
7. The Rome Principles, agreed in 2009 by over 60 Heads of State at the World Food Summit, should be implemented that commit donors to respect and support development plans developed and controlled by national governments.

Context of the international food price crisis



Photo: CNCR Senegal

The international community advocated for, and invested in, two primary responses to the food price crisis when it first started, in 2007. Investment was directed at increasing agricultural productivity and strengthening and/or expanding social safety nets. These dominant responses to the food crisis were, and continue to be, evident in the spending of the Gates Foundation, the World Bank, the UN and most bilateral donors. FAO instituted a programme to ensure inputs reach small-scale producers at the first sign of price spikes, as early as the fourth quarter of 2007 (called the FAO Initiative on Soaring Food Prices). The international community continues to emphasise this response. Within weeks of taking office in January 2012, the new Brazilian head of FAO, Graziano da Silva, repeated the call for an increase in global food production by 70 percent by 2050 to respond to the needs of a still growing global population. The G20, after considering the issue of high and volatile prices in 2011 but failing to take meaningful action, has returned squarely to the question of agricultural productivity as its food security focus in 2012⁶. Safety nets, too, have received increasing attention and funding from donors and international policy experts, while social protection and safety nets are set to be a central topic of the High Level Panel of Experts to the UN's Committee on World Food Security (CFS) session in October 2012. Yet while safety nets and investments in increasing production are undoubtedly important, alone they are an insufficient response to the price crisis and could even exacerbate the crisis if subsequently implemented programmes are not attentive to the broader context of challenges facing agricultural development. Those challenges, many of them well documented by international organisations, are complex and include a variety of environmental, economic, political and social issues. Examples include increasingly uncertain production yields linked to climate change, diminishing biological diversity, freshwater scarcity, depleted soils, and desertification linked to deforestation. The evidence clearly points to an increase in the incidence and severity of natural disasters over the past few decades, with large consequences for agriculture⁷. Further challenges include the privatisation of genetic resources under the expansion of patent systems, and the lack of appropriate technology development and knowledge sharing whilst unregulated land grabs, chronic underemployment in many developing countries, and high levels of concentrated market power in the hands of a very small number of global agribusinesses mean the returns to agriculture are unequally distributed. In addition, continued and systemic discrimination against women farmers and farm workers, and the existence of political institutions that ignore or silence farmers and farm workers are only slowly, and unevenly, being addressed by governments and the private sector.

6. See the 2012 inter-agency report for the G20: Sustainable Agricultural Productivity Growth and Bridging the Gap for Small Family Farms. <http://ictsd.org/downloads/2012/05/g20-2012-27-april-2.pdf>

7. For more information, please see, http://www.grida.no/graphicslib/detail/trends-in-natural-disasters_a899

A recent review of donor, multilateral institutions, and the UN concluded that an important change in the rhetoric of food security and agricultural development, accompanied by a long overdue boost to spending on the sector, has not been matched by a fundamental review of spending priorities⁸. Nor have the countries whose production dominates international markets been willing to look at the distortions their policies cause, as the lacklustre outcomes of both the first G20 Agricultural Ministers Summit in June 2011 and the CFS debate on price volatility in October 2011 attest to. Unsurprisingly therefore, in the midst of this inaction a number of developing countries are searching for more satisfying answers and solutions.

One path for change may lie in the Comprehensive Africa Agriculture Development Plan (CAADP) agreements that all of the countries⁹ in Sub-Saharan Africa have signed. CAADP is one component of the New Economic Partnership for Africa (NEPAD). The re-creation of strategic stocks in a number of African countries as a tool to mitigate food price shocks is one of the signs that the governments facing chronic or periodic food insecurity are less convinced (or less willing to accept) than they may previously have been that markets must be left in charge of the allocation of resources. Governments are also taking steps to improve regional cooperation, which is particularly important for Africa, the continent with the most countries and many weak and fractured markets. For example, a number of West African governments¹⁰, under the auspices of Economic Community of West African States (ECOWAS), have signed an agreement that commits signatories to providing food from national stocks to any other member of the agreement that is facing a food emergency (a project known as RESOGEST)¹¹.

Ultimately, a combination of local, national, regional and global strategies will be needed to tackle the problems resulting from the food price crisis. This paper focuses on the national level in developing countries (and more especially in Africa), but with an eye to the larger context in which African governments, businesses and societies operate. Domestic

8. Tim Wise & Sophia Murphy (2012), *Resolving the Food Crisis: Assessing Global Policy Reforms Since 2007*. GDAE & IATP. USA.

9. Namely: The Gambia, Ghana, Senegal, Mali, Burkina faso, Liberia, Sierra Leone and others

10. Signed by the ministers of 17 countries: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo, Canary Island

11. RESOGEST is the Network of Structures for the Management of national food security Stocks in the Sahel and in West Africa. http://www.cilss.bf/IMG/pdf/RESOGEST_COOPERATION_FRAMEWORK.pdf



Photo: SOS Sahel Burkina Faso



food markets in Sub-Saharan Africa in particular are prone to price shocks caused by uncertain supply, fragile and sometimes ineffectual demand (people cannot afford to eat as they might wish) and market failures that range from lack of adequate transportation options, to lack of transparency in markets, to lack of sufficient control at the border. More recently, prompted by the international food price crisis, Africa is also facing a significant surge in interest from foreign investors and foreign governments in its land and water resources. This interest largely stem from the biofuels sector in industrialised countries, from speculative investors looking to profit from rising land prices, and from a handful of richer, food-import dependent governments that are concerned international trade is not sufficiently reliable. These pressures are all affecting the national context in which African governments operate.

Therefore, African Governments alone are unlikely to be able to address these challenges; the cooperation of other governments is needed to ensure positive changes in the global/international context. For example, as agricultural economist Peter Timmer has written¹², Asia needs to amend its relatively successful domestic price stabilisation policies to lessen the harm they cause in international markets. Limiting exports during an international food price spike drives international prices higher, just as dumping grain in export markets when world prices are low reduces the prices farmers receive in importing countries. At the same time, Africa needs to introduce affordable price stabilization policies that work without undermining small-scale producers or market signals that would encourage greater investment and raise productivity¹³. National action and international cooperation are both essential to protect people's access to food.

12. C.P. Timmer (2011), Managing Price Volatility: Approaches at the global, national, and household levels. Symposium paper. Centre on Food Security and the Environment. Stanford University. USA.

13. C.P. Timmer (2010), Behavioral Dimensions of Food Security, Proceedings of the National Academy of Sciences USA.

Food price volatility in international and national markets

3.1 What happened to international markets?

There is a large body of literature now on the 2007-2008 food price crisis and its aftermath. Food price volatility in international markets has had center stage in policy debates for five years. In 2011, both the G20 and the UN Committee on World Food Security (CFS) discussed the problem. The High Level Panel of Experts (HLPE) to the CFS reported on food price volatility in July 2011^{14,15} and included a survey of the recent literature on the subject.

A summary of factors identified as contributing to the global food price crisis are presented here¹⁶:

- Declines in stocks-to-use ratios of some of the most heavily consumed grains;
- Declining productivity from agriculture, linked to long-term neglect of new investment in agriculture and diminishing returns to green revolution technologies such as hybrid seeds;
- Climate-induced supply shortfalls, linked to more prevalent droughts and floods, affecting domestic supplies in net-food importing countries and some of the major grain exporters, such as Australia and Argentina;
- Depleted soils and water tables resulting from unsustainable production;
- Explosive growth in the biofuels sector created a rapidly growing diversion of grain from food uses from about 2004, a demand rendered inelastic by government mandates to establish a minimum quantity of biofuel in the energy supply, particularly in the U.S. and EU, but also in Canada and some other countries;
- Increased oil and fertiliser prices;
- Speculation in oil and food commodity futures markets.

14. HLPE, 2011. Price volatility and food security. A report by the High Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security, Rome 2011.

15. Disclaimer: I was part of the team that wrote the report for the HLPE.

16. Food Prices in Developing Countries Since 2008, ActionAid International (Jan 2011AA)





Photo: Sylvain Cherkouli / ActionAid

This mix of problems, linked to environmental constraints, poor policy choices and the abrupt creation of a new demand for agricultural commodities through biofuels mandates and subsidies, combined to rock international markets. This is what commentators such as Josette Sheeran, then head of the World Food Programme (WFP), meant when she said a “perfect storm” had caused the 2007-2008 food crisis: many contributory factors combined to create a crisis that existing systems were not able to cope with. For many developing countries, the disruption of international markets was laid over chronic price volatility in domestic markets, linked to uncertain and highly variable domestic production.

The renewed upward price trend evident in 2010 and 2011 indicated that the problem was not just one of excessive volatility but also of significantly higher prices. These are distinct if not unrelated problems. Volatility in the context of high prices is much more damaging for poor consumers than volatility when prices are lower. For farmers, excessive volatility is a significant net cost in either case. Whether around relatively high or low prices, volatility in any industry discourages investment, as the potential revenue and costs are harder to anticipate. As such, volatility forces risk-averse behaviour, especially for small-scale, low capital producers. Most governments are more preoccupied with ensuring an affordable food supply than with volatility per se – it is high food prices that can lead to civil unrest (such as the riots many countries



experienced in 2008) and that creates the political pressure to create subsidies, or impose export bans, or to take other steps to be seen to bring prices down. Chronically low but volatile prices for producers is a characteristic of many developing countries agriculture – a problem that governments have long ignored, but that initiatives such as CAADP are meant to address.

While a lot depends on what assumptions lie behind the models used to predict future food price trends, a number of economists expect food prices will stay higher, in real terms, than they have been in recent decades. That prediction was made by FAO and others in 2008 and continues to have weight. Higher prices have, predictably, led to increased acreage in production and renewed investment in intensification (growing more food on the same amount of land). Yet stocks of many commodities remain low, and therefore the pressure on prices is still strong—demand is more than keeping up with growing supply. Moreover, it is now evident that volatility is persisting. Theoretically, markets are expected to correct themselves—excessive volatility should give way to more stable trading prices once prices adjust to a new equilibrium between supply and demand. The debate on the extent to which the financial mechanisms that arbitrate prices for agricultural commodities on international markets are to blame continues unresolved, but industry insiders, government regulators and some academic commentators are all persuaded that reforms are needed¹⁷.

Structural changes in agricultural commodity markets, as well as in the companies that dominate those markets have to be understood in order to understand the crisis. These changes included the merging of once distinct energy, food commodity and financial markets. Distinctions among these three areas were blurred by the deregulation of financial markets (particularly, but not only, in the United States)¹⁸. Very large sums of money have moved into agricultural commodities since 2000. In 2003, there were some 500,000 outstanding contracts on the Chicago corn (maize) futures market. By 2008, the number of those contracts had risen to 2.5 million – a five-fold increase¹⁹. The effect of this expansion of investment in commodity futures is contested among economists, but it does seem both to have increased at a minimum short-term risks (and costs) for countries seeking to secure food supplies through futures contracts on commodity markets, and to have generated instability that may or may not persist, but that even in the short-term can be devastating for stakeholders in the market that have no economic power (such as smallholders growing export crops, or LDC governments trying to buy food imports in commercial markets).

17. For a sample of the related literature, see IATP (2011), *Excessive Speculation in Agricultural Commodity Markets: Selected Writings from 2008–2011*. IATP USA. http://www.iatp.org/files/2012_ExcessiveSpeculationReader_web.pdf

18. Jennifer Clapp (2012), *Food*, (Chapter 5), Polity Press. USA/UK.

19. The City UK website. <http://www.thecityuk.com/research/our-work/articles-2/record-trading-in-commodity-derivatives-benefits-uk-exchanges-in-2010/>



Photo: Sylvain Cherkakou / ActionAid

During previous periods of volatility in global markets, developing countries were largely food self-sufficient. However, this is not the case today. In November 2011, the FAO reported to governments at the WTO Agriculture Committee, “The world food import bill is set to reach US\$1.29 trillion in the current year. At some US\$250 billion more than the previous year, the food import bill in 2011 would represent a record in both level and increase²⁰.” The same FAO report also says, “Putting these numbers in greater perspective, the cost of imported foodstuffs for vulnerable countries could account for roughly 17 per cent of all their expenditures on merchandise imports, compared with a world average of around 7 per cent.” In other words, a disproportionate share of the rapid growth in the cost of food imports is accruing to countries that can least afford to pay for it.

From the 1980s, the donor community in both its bilateral and multilateral policy prescriptions presented poor countries with the international market as a way to stabilise their uncertain domestic food supply. Yet international markets have introduced exposure to new sources of volatility, as the 2007-2008 crisis and the continuing high and volatile prices since have illustrated. Farmers and traders that wish to hedge their sales on futures markets require much greater capital up front to secure their contracts than they needed just five years ago. For poor net-food importing countries looking to hedge their import needs this is a further barrier.

The food price crisis dramatically highlighted the risks of relying on international markets as a food security strategy. There are good reasons to use international markets to reinforce domestic capacity, but international markets are not immune from volatility. The countries that grow the surpluses sold in international markets decided to restrict (and in some cases stop) their exports, choking off markets just when the supply was short. These were many of the same countries that had resisted the efforts of importing countries to use tariffs to better support domestic production while remaining open to trade. Export restrictions at a time when markets were already unsteady sent a shockwave through the international trade system. Negotiations on the Doha agenda at the WTO broke down in July 2008 and have remained stagnant ever since. In 2011, commentators and even some government officials began to declare the Doha Round failing, or even dead²¹. African governments began to reassert their determination to strengthen food self-reliance and to reduce imports²².

20. FAO (2011), Follow-Up To The Marrakesh Ministerial Decision On Measures Concerning The Possible Negative Effects Of The Reform Programme On Least-Developed And Net Food-Importing Developing Countries. WTO document reference G/AG/GEN/98.

21. See for example: South African Trade and Industry Minister, Rob Davies, cited in June 2011 at: <http://www.southafrica.info/business/trade/relations/doha-010611.htm> or L. Herman & G.C. Hufbauer's September 26, 2011 article: Doha Is Dead. Foreign Policy Review. USA. http://www.foreignpolicy.com/articles/2011/09/26/doha_is_dead. An internet search of the phrase “Doha is Dead” brings up many similar opinion pieces written throughout 2011.

22. NEPAD (2011). African Union/NEPAD Declaration on the G-20 action plan on food-price volatility and agriculture. Midrand, South Africa, New Partnership for Africa's Development Planning and Coordinating Agency.

3.2 The international food crisis and domestic prices

Most countries in Sub-Saharan Africa suffer significant levels of domestic food price volatility. This volatility is more frequent than the periods of excessive volatility in international markets, although domestic price volatility is not as extreme. In recent history, world prices have spiked only every 30-35 years on average. In many developing countries, including Sub-Saharan Africa, domestic food market prices spike more like every five years²³. For many developing countries, seasonal volatility is also a major concern, caused by uneven harvests and low levels of production, lack of storage capacity, and widespread poverty creating a situation in which consumers lack the purchasing power they need to buy the food they want. This volatility within the year creates vicious cycles in which food is cheap when farmers are selling at harvest time but expensive in the months before the next harvest, when everyone, small-scale producers included, is buying in the market.

One of the central concerns in the wake of the global food price crisis was to understand how price fluctuations in international markets were transmitted to domestic markets, as these are the market where people buy their everyday food and which set prices for many domestic food producers. In a perfectly open economic system – a world without border measures or unequal market power – price transmission would be automatic and complete; with a slight time lag allowing for the time it took orders to be delivered. Price changes in local markets would therefore equal the changes in international markets.

Of course, markets are neither perfectly open nor free of concentrated market power. Food exports are still only a relatively small share of total food production – there is no good number, but estimates suggest approximately 10 - 15 percent of agricultural production crosses an international border. This statistic changes markedly product by product. FAO statistics suggest wheat exports are approximately 17 percent of total production and rice approximately 7 percent²⁴. Oilseeds are much more heavily traded, with 40 percent of the oils exported and over 50 percent of its by-product, oil cake, which is used for animal feed²⁵. Tropical commodities such as cocoa and coffee are almost entirely grown for export. Food security for most people starts at home, though an ever-growing number of people depend on imports for some part of their food supply.

In practice, national prices experienced great variations during and after the crisis, ranging from close to full transmission of the international market price change – with varying time lags depending on how good countries' transportation links were and how large a share imports constitute of domestic food consumption – to countries where prices increased by less or by far more than they did in international markets²⁶. Reporting in November 2011, the World Bank noted maize prices increased 57 percent between June and August 2011 on local markets in Malawi, and more than 30 percent in Uganda, Ethiopia and Burundi. Similarly, wheat prices increased approximately 10 percent in Burundi, Belarus and Pakistan but fell by more or less the same amount in the markets of Armenia and El Salvador²⁷. The World Bank suggests the volatility must be due to more than seasonal variations because they do not conform to previous years. However, the causes are not easy to explain and point to a lack of research and analysis on national price formation in agriculture.

Broadly speaking, price increases in Africa have been dramatic, whereas in much of Asia they have been more contained, especially in the larger, wealthier countries, such as India, China and Indonesia²⁸. Much of Latin America is net-food exporting (the exceptions are the Caribbean islands, Mexico, El Salvador and Venezuela). There, higher prices meant greater returns to agriculture and prosperity for some. However, unequal distribution of wealth meant the majority did not see the benefits of higher prices but still had to pay more for their food. For example, in Brazil and Argentina, both avowed and active “free-traders” in agricultural trade negotiations for the last 15 years, imposed export restrictions during the crisis, which exacerbated the price increases at the national level and contributed to the crisis in confidence that importers suffered and that continues to undermine importers' confidence in international trade today. Argentina created new export taxes on wheat, while Brazil temporarily banned exports of rice.

23. Sharada Keats, Steve Wiggins, Julia Compton and Marcella Vigneri, “Food price transmission: rising international cereals prices and domestic markets,” Project Briefing 48. October 2010. ODI. UK. <http://www.odi.org.uk/resources/docs/6240.pdf>

24. Calculated using FAOSTAT (the FAO database). Accessed June 2012.

25. Ibid. (FAOSTAT)

26. World Bank, Food Price Watch, Nov 2011

27. World Bank, Food Price Watch, November 2011.

28. FAO (2011), State of Food Insecurity, pp 8-9. Rome.

Table 1. Largest food price increases, percent by region

Country	Commodity	June 10 - Feb. 11	Feb, 11 - Aug, 11
WEST AFRICA			
Somalia	Sorghum	83	31
DRC	Cassava	44	-13
Sudan	Wheat	37	0
Uganda	Maize	65	86
South Africa	Maize	48	27
Malawi	Maize	50	3
Somalia	Maize	26	57
Burundi	Rice	37	4
Niger	Rice	22	-11
Rwanda	Rice	21	47
ASIA/EAST EUROPE			
Bangladesh	Rice	21	-7
Bangladesh	Wheat	50	-25
Kyrgyz Republic	Wheat	69	4
Tajikistan	Wheat	50	5
Mongolia	Wheat	36	-3
Georgia	Wheat	32	-2
AMERICAS			
Brazil	Maize	81	-6
Honduras	Maize	67	30
Haiti	Rice	22	-10
Costa Rica	Beans	52	-2

Source: World Bank DECPG²⁹.

29. From the World Bank Food Price Watch, Nov 2011. On-line at: <http://siteresources.worldbank.org/EXTPOVERTY/Resources/336991-1311966520397/Food-Price-Watch-November-2011.htm#note6>



Photo: Candace Felt / ActionAid

This complexity of these issues was not captured in the initial estimates of how the price crisis was affecting hunger levels. In 2011, the FAO's State of Food Insecurity (SOFI) report did not include its annual hunger statistics³⁰. The writers of the report took to heart criticism of the assumptions that underlay the methodology FAO had been using, and later agreed to develop a new set of indices that would improve the accuracy of their statistics. However, the 2011 SOFI report did discuss the food price crisis using a number of African and Asian countries, as well as Brazil, to develop three categories of countries according to how they were affected by the food price crisis of 2007-08³¹. Characteristics of the first group of countries were that they were able to hold prices relatively constant, and malnutrition levels, too. This group included countries such as China, with important domestic reserves they could release on the market, and Brazil, with a sophisticated set of national programmes to alleviate hunger and improve nutritional status. Some countries in this group, including India and Brazil, also imposed export restrictions on some agricultural commodities (in this case rice), to increase availability in the domestic market. These countries had the means to act and relevant programmes in place to cope. However, some of their actions were detrimental to other countries – in particular, the restrictions on rice exports hurt rice-importing countries in Africa because these measures exacerbated the already damaging price increases on international markets.

A second group of countries passed on the higher prices to domestic markets and the higher prices had a positive effect. Malnutrition levels fell due to the fact that a large enough number of the population were both net producers of food and controlled enough market power to realise higher prices from sales, which in turn enabled them to absorb higher input costs and still benefit from higher grain prices. In this case, the rising food prices acted as a redistributive mechanism from consumers to producers with a net positive gain for the country in reduced levels of malnutrition. Thailand and Vietnam (which imposed some export restrictions) are two clear examples of this experience as illustrated in the 2011 SOFI analysis. Bangladesh shows only a very modest increase in hunger, despite relatively large food price increases.

The third group, which includes all the African countries examined, saw both prices and levels of malnutrition rise. These countries are dependent on international markets, lack the foreign reserves to buy sufficient imports when prices rise, and have neither adequate domestic reserves nor sufficient safety nets to cope.

30. FAO (2011), State of Food Insecurity, Note on page 10. Rome.

31. Ibid.

4

Major causes of national food price increases

The case studies that in part inform this study are focused on three countries - Burkina Faso, Senegal and Uganda - that have very limited budgetary resources, scant or no domestic food reserves (along with a dependence on rainfed agriculture), and large percentages of their population living in poverty (often 50% or more). All three countries also have large populations of young people, many of whom are unable to earn a livelihood due to the lack of employment opportunities available. Furthermore, all have large rural populations that depend on agriculture, but few have seen the expected benefits of higher prices for their harvest as a result of rising input costs (particularly for fertiliser and seed), rising fuel prices and the low productivity of many farm households. As a result of these circumstances, many farmers are net-food consumers and higher prices for the sale of agricultural products are not sufficient to offset the higher costs of production and consumption.



Each of these three countries experienced a cycle of price fluctuations with food prices rising significantly during the 2007-08 crisis, and a modest fall in prices during 2009 before another climb in 2010. The average food price in all three countries in 2011 was far higher than that which had preceded the crisis. While all three countries experienced food price increases, however, the reasons for the increases varied. All three countries are oil importers and higher petroleum prices affected them all. Both Burkina Faso and Senegal are also heavily dependent on rice imports; rice was one of the commodities with the greatest price increases. Uganda, on the other hand, is a regional exporter of beans and maize. Some of the cause of its domestic price increases was the result of growing demand for exports, which created relatively greater scarcity in domestic markets.

The countries' relationship to the US dollar is also significant – West Africa's use of a common currency (the CFA³² franc), which is more closely tied to the euro than the dollar, offered the region a degree of protection from some of the price increases of 2007-2008, which were much greater in dollar terms than in euros. On the other hand, the more recent crisis in European finances has weakened the euro's purchasing power vis-à-vis the dollar, and so countries using euro-linked currencies have seen sharper price increases more recently than countries with currencies more closely tied to the dollar.

International trade in agricultural commodities is mostly conducted in U.S. dollars. Traders must hedge against the risk of a sudden currency appreciation or depreciation that makes a dramatic difference to the cost of the trade. The U.S. dollar has fluctuated significantly against other currencies in recent years, increasing transaction costs for any business that has to move in and out of dollars, and exacerbating food price increases for net-food importers with a dollar-dependent currency. Monetary policy is one of the areas where lenders and donors alike have been most heavy-handed with developing countries, particularly in Africa. The replacement of fixed exchange rates with floating currencies introduces another source of potential price instability for imports.

As such, governments should be thinking about the implications of **monetary policy** for trade, particularly if the country is heavily dependent on food imports. The case study on Uganda discusses how the introduction of a new currency in 2010 without adequate provision to remove the old has created inflation in Uganda, as a larger volume of currency chases the same number of goods. Of course, higher oil prices and higher demand for food in the region as the price of imports in international markets increased were also significant factors in Uganda's high level of inflation

There are also important supply variables that affect the availability of food. The world over, one of the critical variables in food supply is the climate. Agriculture, particularly in Sub-Saharan Africa, remains highly dependent on rainfall. Droughts and floods, the incidence of both which is on the rise, have



32. West African common currency used in 14 African countries including 12 countries who were former French colonies



Photo: ActionAid Uganda

wreaked havoc on production levels in many countries. In 2009, Kenya was hit by severe drought that pushed food prices very high in a year when most countries saw prices fall back from their 2008 peaks. The drought in the Horn of Africa in 2011 and the SAHEL³³ crisis in 2012 are more recent examples.

There is also a long list of **supply constraints** that impede farmers' ability to turn higher prices into increased productivity. These include the paucity of credit for agriculture, particularly credit available to women, and to small-scale producers in general. There are problems with access to good quality seed, affordable (and appropriate) inputs, and with the quality and availability of arable land and good water management.

Taxes on foodstuffs are common in the countries studied, in the form of Value Added Tax (VAT) and tariffs on imports. Although some of these taxes (such as tariffs on grain imports) were reduced or eliminated during the crisis; in Burkina Faso, the taxes still remain. Taxes on food imports are a way of protecting domestic producers when prices in international markets signal bad policies in the exporting countries. Such bad policies include sales at less than cost of production prices (dumping), which results from poorly devised subsidies to producers or the failure to regulate the market power of transnational firms in the highly concentrated grain and food sector. The highly unequal purchasing power among different countries' consumers is another reason for governments to consider border measures such as import tariffs, as is exporting countries' use of export subsidies. On the other hand, taxing food at a time of high food prices in international markets is also problematic, not least for political reasons, as people want assurance governments are working to keep food price inflation under control.

Energy prices are also critically important. This is most immediately apparent in relation to the price of oil, and the fact that most of Sub-Saharan Africa must import its oil. Governments must consider alternative energy sources but it remains a real challenge to find viable alternatives. Building an economy that depends on oil even at current prices (and oil prices are only likely to increase in the future) is to create dependence that few Sub-Saharan African countries can afford. Governments need to rethink both their use of energy as well as their sources of energy, not least in relation to the production, processing and preservation of food.

Oil price rises and fluctuations had a sharp effect that coincided with, and was linked to, the global food crisis. Oil prices have dropped since their peak in 2008 but remain higher than for much of the previous 20th Century (when they averaged \$25 per barrel). Since mid-2011, oil prices have mostly hovered above \$100 a barrel (though they have softened a little in mid-2012)³⁴. Not one of the governments studied in the case studies has made alternative energy strategies a priority nor has much attention been paid to developing agricultural production systems that do not rely on hybrid seeds and petroleum-based fertilisers.

33. The Sahel Region in Africa includes Mauritania, Mali, Niger, Burkina Faso, Senegal and Chad.

34. For detailed information, please see, <http://www.oil-price.net>

Many remote areas face the challenge of inadequate infrastructure, including a lack of roads and storage for their crops. Decent warehouse programmes allow greater self-reliance, both by providing a way to keep more food in the community for longer, and a place to hold imports that can be bought when prices are low and released when prices rise to avoid price spikes. Good roads also allow the possibility to bring food in when local harvests fail.

Unequal market power further compounds volatility and high prices. Without real competition in the market, companies are less likely to respond as free-trade economists predict they will. Three to five firms dominate any given agricultural commodity in international markets. Most of these global firms are dominant in many commodities simultaneously. In 2003, the four big commodity traders known as “ABCD” (ADM, Bunge, Cargill and Dreyfus) controlled an estimated 73 percent of international grain trade³⁵. The markets are broadly competitive among the top players, but barriers to entry and information asymmetries abound: small players (and governments attempting to find the best deal in the market) operate at a significant disadvantage. Profits for the top firms during the price crisis showed some vulnerability, particularly to the financial crisis in the third quarter of 2008 however, their profits continued to be good, especially for those who owned fertiliser subsidiaries such as Cargill³⁶ (fertiliser prices increased more than any other commodity price during the food price crisis).

At the national level, Burkina Faso has a relatively diffuse food import sector, with over 20 firms vying for business. In contrast, Senegal now has seven importers, down from many more just a few years ago. In both countries, **hoarding** is seen by those engaged in the food system to be an issue. In fact, all three case studies note that traders hoarding supplies is a problem. Although some governments, such as Senegal, have announced the intention to tackle this problem, it proves intractable. From the traders' perspective, imports and exports in volatile markets is a very uncertain business, making hoarding a particularly attractive way to hedge risk. As with the other challenges identified in this report so far, the best solution to this less than optimal situation would be for governments to ensure transparent markets and to take steps to limit volatility, thereby removing the incentive for traders to hoard in the first place.

35. AWB (Australian Wheat Board), n.d. Global Wheat Trends, Melbourne.

36. Oxfam (2011), Growing a Better Future, Oxfam. Summary on-line at : <http://www.oxfam.org/sites/www.oxfam.org/files/cr-growing-better-future-170611-summm-en.pdf>



For several decades, some agricultural economists, a handful of governments, and many CSOs – peasant organisations in particular – have argued that higher prices for food producers are necessary to eradicate poverty, especially in the LDCs. Those in favour of this approach identified chronically low agricultural prices as the source of the dramatic fall in investment in agriculture, the migration of rural populations to urban areas in search of employment, and the poor performance rates in overall growth, especially in the many low income countries that depend heavily on agriculture for capital formation and employment. In some instances, low prices were the result of government interventions designed to keep food cheap for urban areas. However, in others, especially following the liberalisation and deregulation of most economies under structural adjustment programmes, the low prices could be in part be attributed to the dumping of agricultural commodities by richer economies in international markets and by the disproportionate market power of agribusinesses engaged in buying, trading and processing cereals. Market distortions meant consumers did not get the full benefit of low prices, while farmers paid a heavy price for selling in markets in which they were price takers. In some cases, trade in dumped goods destroyed local production and distribution.

Yet when world prices for agricultural commodities jumped in 2007, the commentary was for the most part bleak. It became apparent that there was a tension between the longer-term benefits higher prices could confer and their short-term costs. Many small-scale producers are net food buyers, at least at certain times of year, and the likelihood that higher prices for their crops would be sufficient to offset the higher costs of buying their food proved low. The case studies that helped inform this paper, as well as earlier work from ActionAid on the effects of the food price crisis on national food security, support this finding³⁷. A few countries, such as Thailand have relatively equal landholdings, strong agricultural productivity and a reasonably competitive market, which enable farmers to benefit from higher prices. Most producers in the South, however, are not so well placed. Input prices rose sharply in 2007-2008, especially fertiliser and oil prices, creating an immediate cost barrier to increasing output for many smaller commercial farmers. Too many small-scale producers had little or no surplus to sell yet had to pay a lot more for the food they bought.

It is worth noting that the effects of higher prices – albeit also more volatile prices – should be monitored over time. If high prices persist, and if other challenges in the food marketing and distribution system can be addressed, producers need higher incomes and therefore higher returns from their agriculture. As noted earlier, higher prices were turned into positive gains in China, Thailand and Vietnam. Higher returns to agriculture are a necessary but not sufficient condition for more broadly shared development. Higher commodity prices have the potential to lead to positive outcomes over time by increasing the capital available for investment in agriculture, and in rural services more broadly. Rural areas are starved of investment and credit in most net-food importing countries, so finding ways to capture the benefits of higher food prices is essential to making significant progress in eradicating hunger and poverty.

Yet in many countries, production costs rose higher than commodity prices³⁸. ActionAid's initial survey of poor households in different developing countries as they confronted higher food prices in 2008 suggests that whether or not they were producers, higher prices meant increased exposure to food insecurity and hunger³⁹. Farm assets, such as livestock, ironically drop in price as forced sales by small-scale producers create excess supply on the market. This problem had already been well documented at the time of the Niger famine in 2004.

For farm workers, higher prices in agriculture overall generally mean more, and sometimes better paid, work. However, when food takes half or more of household income, as it typically does in the world's poorest countries, an improbably

37. Aftab Alam, 2011. How to Remedy the Food Crisis: Exploring Causes and Effects at the National Level Food Files.

38. FAO (2009), The State of Agricultural Commodity Markets 2009. FAO. Rome.

39. Aftab Alam, 2011. How to Remedy the Food Crisis: Exploring Causes and Effects at the National Level Food Files.



Photo: Sylvain Cherkacou / ActonAid

significant pay rise is needed to offset the effects of a food price spike. The large increase in the number of people living with hunger as a result of the food price crisis points to the very high percentage of people who live just above the poverty line. Volatility hits this group hard – unexpected volatility can push many households into hunger without warning, straining such safety nets as might exist.

That there was an increase in poverty because of the world food price crisis is not in dispute, but just how many people swelled the ranks of the hungry is hotly debated. It is clear that the persistence of higher and more volatile food prices has increased the number of households that are not eating enough nor able to meet other basic needs such as education, shelter and healthcare. But the FAO's State of Food Insecurity report for 2011 did not include statistics on the number of malnourished people in the world that would have allowed analysts to make more accurate calculations. This was because FAO committed to rework its methodology to improve the quality of the hunger numbers it produces.

The case studies do not document how domestic traders fared during the crisis. While traders are arguably well placed to benefit from higher prices, especially where the trading and distribution sectors are concentrated, volatility is expensive for businesses, raising risk and therefore transaction costs. In Burkina Faso, where the importers are less concentrated than in Senegal, these costs could undermine traders' ability to import even if demand increased. Traders must also calculate whether their customers are able – and willing – to pay more for imports. In some parts of Sub-Saharan Africa, the dominant traders are from a different ethnicity and sometimes religion than the majority of the country, making them vulnerable to public discontent⁴⁰. That said, in Senegal at least, the implication in the case study is strong that traders profited disproportionately from the price increases. This kind of speculative hoarding (holding back supply to force prices higher) is well documented as an issue in the particularly volatile rice market in Asia as well. Until the markets function with much greater transparency, this behaviour is both likely to continue occurring and rightly to be suspected by others with less power in the supply chain.

Coping with risk at a time of uncertain and possibly catastrophic events (such as the floods that destroyed so much of Pakistan in 2010) which are predicted to increase as the climate changes, is difficult. Peter Timmer argues the costs of periods of food price volatility always outweigh any possible welfare gains, because of the people's psychological disposition to dislike volatility⁴¹. Food insecurity, argues Timmer, is in part a psychological state, not just an economic or physical state. Food is largely a private good – bought and sold in private markets however, food security is a public good and governments are confronted with significant challenges when they try to simultaneously maximise market efficiencies and ensure the universal human right to food.

40. See Peter Griffiths (2003), *The Economist's Tale*, for a sober assessment of what this implies for a country facing famine.

41. C. Peter Timmer (2010), *Behavioral Dimensions of Food Security*. Proceedings of the National Academy of Sciences of the USA.

As illustrated throughout this report, there are many elements to food prices, and complex relationships among international, regional and national markets. Some elements are clearly the preserve of domestic governments, however others require concerted action across regions or on the part of donors and multilateral organisations. That said, whatever the vagaries of the international market may be, responsibility to realise the right to food falls on national governments. It is their responsibility to act.

Although it has been five years since the food price crisis first erupted, it is clear that a full analysis of the implications of the changing food situation has yet to be absorbed and acted upon, particularly at national levels. The case studies profiled in this report suggest governments are investing more of their own and donors' money in agricultural production, with some effect. Indeed, many governments had decided to make this move even before the crisis, for instance through CAADP agreements. ActionAid cites impressive increases in the production of some food staples in Sub-Saharan Africa between 1990 and 2005, including a 69% increase in cassava, 53% increase in millet and 107% increase in sorghum production⁴². Some existing safety net programmes have been expanded, and are working well. Both these spending initiatives are proving expensive, however, and some programmes have already collapsed because of insufficient resources. Some governments have taken steps to encourage the creation of farmers' organisations, although in Senegal, it appears the government has gone around the existing, independent, farmers' organisations and created their own, more pliant, structure. More encouragingly, public investments in agriculture have addressed post-harvest processing and storage, road construction, local and regional (sub-national) grain reserves, and other measures.

The following section of this report takes a more in depth look at some of the government responses, particularly in the three countries of the case studies. Note, the share of donor resources in the total budget of all three countries studied is huge, giving the donors a strong voice as to where countries direct their investment. This influence should not be underestimated.

6.1 Promoting increased national food production

The governments of Burkina Faso, Senegal and Uganda have all focused on raising agricultural productivity. In Burkina Faso, the government elaborated an emergency plan in June 2008, as prices peaked. The main emphasis was to increase rice production and the plan was a success: production increased three-fold between 2008 and 2011. The productivity gains were based on increasing the use of improved seed from 10 to 50 percent and increasing the use of fertiliser from an average of 9 kg/hectare to 15 kg/hectare in 2015. In Senegal, too, the government has invested in raising production. The programme, known by its French acronym as GOANA (in English the Grand Offensive for Food and Abundance), created public subsidies for inputs, promised to improve producer prices, and to establish programmes for crop protection, irrigation and more. The subsidies were as much as 87.5 percent of the cost of hybrid seeds, 50 percent of the cost of fertiliser and up to 80 percent of the cost of farm equipment⁴³. In practice, however, the government did not have the resources to extend GOANA to all producers. An estimated 50 percent of the land area given to millet and groundnut was reached, but less than 30 percent of maize hectares and less than 20 percent in the case of rice. The programme in Senegal hit complications because the input suppliers took advantage of the subsidies to increase their profits at the farmers' expense⁴⁴. The government was also slow to disburse funds, which has discouraged the private

42. Background paper on Food Prices in Developing Countries Since 2008, P7, Actionaid International Jan 2011

43. p 24, Senegal study, 2011, Actionaid Senegal

44. Ibid, p 24



sector from engaging in the programme. Governments lack the resources they need to really consolidate gains in the areas of increased food production, stronger marketing mechanisms and strong governance and oversight to achieve the desired results. Note, too, that the investments are in technologies that rely on imported inputs, from oil to seed to fertiliser. A focus on agriculture based on agro-ecological principles is not yet part of the official response, though there are many positive experiments underway across the sub-continent. For example, see the findings of United Nations Conference on Trade and Development (UNCTAD) and United Nations Environment Programme (UNEP) in a review of 114 projects across Africa, in which sustainable agriculture practices were shown to improve yields by an average of 116 percent⁴⁵.

In Uganda, too, the government is investing in productivity, although seemingly in a more comprehensive way than either Burkina Faso or Senegal. The National Agricultural Advisory Services (NAADS – a body that was created in 2002) has a four part plan in place: to build farmer institutions (such as cooperatives); to promote new technologies and deliver advisory services to farmers; to develop agri-businesses and market linkages (for instance by building agro-processing capacity); and, research⁴⁶.

6.2 Social protection

Both Senegal and Burkina Faso are implementing programmes to extend social assistance. Expanding safety nets is an obvious and necessary response to the crisis, although the expense proved almost immediately unsustainable in Senegal, and much of the effort depends on contributions from donors including the WFP. Uganda appears not to have added social safety nets as part of its response to the crisis, instead opting to invest in agriculture and to increase imports on those commodities whose prices rose the most dramatically (such as sugar). Both the studies of Senegal and Burkina Faso note that the safety nets in place do not serve the most vulnerable people; for example, many measures are aimed at urban consumers of imported rice who are relatively well off.

Uganda seems to have opted for economic policy instruments rather than expanded safety nets, including monetary policy, taxation and the creation of grain warehouses to facilitate storage and to provide a buffer against unexpected shortfalls. This approach has much to commend it – they imply structural changes to the economy, rather than measures that attempt to pick up the pieces, so to speak. However, Uganda has also some important advantages in confronting the

45. UNCTAD/UNEP (2008) *Organic agriculture and food security in Africa*, New York: United Nations, see: http://www.unctad.org/en/docs/ditcted200715_en.pdf

46. p 27, Uganda study, 2011, Actionaid Uganda



Photo: SOS Sahel Burkina Faso

food price crisis: while poverty is high, it is not crippling, and particularly as regards food production, Uganda is relatively successful. Uganda produces on average more than enough food for domestic consumption requirements and it is an exporter of food to the region. However, this does not mean hunger is not a problem – food supply is not the same as protecting access for all to the food they need. The continued civil conflict in the north of the country, coupled with drought, has led to prolonged suffering. Nonetheless, the government has relatively more options in the face of high and unstable prices in world food markets, and it has used some of them.

6.3 Storage facilities

Uganda government has said that it would construct 10 warehouses around the country as part of its response to the food price crisis whilst Senegal has announced its intention to construct 300-400 new storage structures. Burkina Faso and Senegal both have reserves in place, but they were not called into use during the crisis. Their policies on food grain storage need more refinement and investment to become operational. In Senegal, the Food Security Commission provides logistics and has already built some 72 warehouses around the country, with 84,000 tonnes of storage capacity. However, another mechanism, the Executive Secretariat of the National Food Security Committee (SECNSA in French), has the responsibility to establish the targets for food distribution, and the government itself has a history of intervening directly, undermining the existing structures. In 2012, the Red Cross and the World Food programme are both playing a role as well. Yet there remains a lot of room for improvement, in building the necessary infrastructure and in the planning around anticipating and then responding to rising food prices. Warehouse receipt programmes designed to smooth supply and to provide smallholder producers with more marketing power have spread rapidly around Africa. These schemes have yet to be built into a national strategy of managing reserves, but the possibility is there.

Other countries were able to use reserves to slow the effects of the price increases and – importantly – to avoid the panic buying that was evident with rice in particular, where price spikes were clearly not warranted by physical shortages but instead were in large part the result of panic buying (and traders hoarding their supplies).

6.4 Trade policy

Trade policies offer governments a variety of important tools for managing food prices; from import tariffs, export taxes, and volume quotas to sanitary standards. A number of Asian countries successfully managed to limit the effects of price increases in international markets by controlling their borders – limiting or even banning some exports, for example⁴⁷.

47. C.P. Timmer (2010), Behavioral Dimensions of Food Security, Proceedings of the National Academy of Sciences USA.

Many African governments, including Burkina Faso and Senegal, attempted to reduce the cost of imported food during the 2007-2008 crisis by lowering import tariffs on cereals, but in the midst of the crisis, the effect of this action was to drive prices higher by raising effective demand on a supply that had no quick way to respond. Uganda, as a net food exporter in the region, faced a different problem; it was not the case that higher prices on imported food in domestic markets forced prices upward. Instead, it was a knock-on effect from the higher international prices: trade partners in the region, such as Kenya, facing higher prices on international markets, turned to the regional markets instead. Increased demand drove prices higher, and pulled more food than usual out of domestic markets, as traders sought higher prices abroad. This decreased the domestic supply and so prices increased in domestic markets as well.

6.5 Unequal market power and the role of traders

There is not much African governments can do to challenge the global market power of the dominant grain traders, but they can act to ensure competition within their borders. Unequal market power is an issue in domestic markets, not just abroad, as the ActionAid case studies discuss. In Senegal in the years since the cereal market was liberalised in 1996, the number of wholesalers in the rice market has fallen from 43 to seven. This pattern of rapid consolidation after liberalisation in developing country markets has been documented by UNCTAD⁴⁸. An initial flurry of private sector activity quickly gives way to consolidation, sometimes with a global firm playing a role and other times with a national or regional firm assuming dominance. With market power comes the ability to take a disproportionate share of the benefit from price increases in international markets – a cost passed on to consumers of imports in local markets.

The study from Senegal shows wholesalers are as active as distributors, giving them power in more than one part of the value chain. The study suggests the market works through relationships among different actors in the chain rather than according to price, as an open market would. Senegal has a Food Security Commission that tracks prices in approx. 50 markets for cereals and legumes across the country on a weekly basis, but it has no authority to intervene in price setting. Before national stocks were largely disbanded, traders knew that the government could adjust supply when prices rose too sharply – the fact of public reserves was a curb on hoarding and speculation. This is no longer the case. The exception is the organisation Agency for Market Regulation (ARM), which is focused on onions in particular. ARM has the power to impose temporary import bans to protect local producers. The case study from Burkina Faso suggests that the crisis hurt traders, too, as none had the money required to import rice at higher prices. There is less consolidation among traders in Burkina Faso, which means few of the traders have sufficient capital to continue to import when prices spike sharply, and none are in a position to make long-term investments to improve their business. This points to a tension for governments; economic theory suggests that competition is important and clearly concentrated markets are more easily distorted by the stronger actors. On the other hand, aggressive competition badly affects the middle-men who buy from farmers. In some contexts, traders that can afford to import at higher prices choose not to for fear that consumers will refuse to pay⁴⁹.

None of the case studies reported any action by the government, either to provide greater support to traders (and possibly to act as the importer directly in times of crisis) or to discipline hoarding and other kinds of behaviour, which reflect a market that is not working as it should.

Government responses to the crisis suggest they were persuaded that vulnerability to hunger had increased—for example, governments increased social protection measures as one response. In most cases, however, the government's ability to pay expanded safety nets was limited. One of the lessons that might be drawn is that the number of people living in poverty, or vulnerable to hunger in a price crisis, means safety nets are vital but insufficient to address the problem. In countries where the incidence of poverty is already one in three or even one in two, a safety net cannot hope to cope. The costs of the programmes relative to the size of the task are too great. At the same time, governments were forgoing income by cutting or eliminating import tariffs and consumption taxes, such as Value Added Tax (VAT).

48. Murphy (2001), *Managing the Invisible Hand*. Canadian Food Grains Bank. Canada.

49. The problem is eloquently explored in Peter Griffiths (2003), *The Economist's Tale*, Zed Books. UK.

7 Recommendations

7.1 Strengthening market linkages

Food security has a number of component parts, one of which is supply. However, there are others, at least as important, including distribution and markets, access, and nutritional quality. None of the governments appear to be looking at the marketing and distribution of food in their response to the food crisis, beyond a renewed interest in storage facilities. In Senegal, the government is talking to farmers' organizations, but the government is also accused of creating dissent among farm organizations by creating its own platform for farmers and ignoring the existing, legitimate forum created by peasant associations themselves (e.g. the Conseil National de Concertation et de Coopération des Ruraux or CNCR).

Nowhere does there seem to be a priority on talking to the different stakeholders that make up the food chain, to consider how best to address the vulnerabilities that the food price crisis brought into relief. Increasing production without consideration of measures further downstream, in the distribution and marketing of food, will no more solve the problem than attempting to address consumer concerns with safety nets when half or more of the population is either living in poverty, or vulnerable to poverty with relatively small increases in the prices of basic necessities.

One example of a programme that is tackling these downstream issues is the World Food Programme (WFP) with its long-standing commitment in Uganda to local procurement of grains and pulses. This purchasing programme has played an important role in developing the national grain market. In 2007, WFP-Uganda was the largest purchaser of grain in the country. This focus on purchasing and marketing is not evident in the policy responses described in the other two case studies, and it points to an area of policy that should receive more attention when considering how to reduce vulnerability in the face of high and volatile prices in international commodity markets.



7.2 Risk assessment

It is not clear if all the countries are involved in expanding their early warning systems, but it seems likely given the strong support for this work among donors and the UN system, which was in place even before the crisis hit. One such programme is the USAID-funded Famine Early Warning Systems Network (FEWS NET). Early warning systems are invaluable and it is essential that countries have some kind of plan on how to cope with possible crises. Governments need a risk assessment of where their vulnerabilities and strengths lie, and how they might respond in different circumstances, thereafter they need information to know whether any of the anticipated risk factors is changing or emerging as a threat. It will also help in the design of effective safety nets and inform governments on what kinds of changes in food prices will lead to changes in the number and constitution of groups asking for help from the state.

In a recent article, Ed Clay, Sharada Keats and Piet Lanser (2011) from the UK's Overseas Development Institute (ODI) set out a series of assessment tools to help countries determine their risk profile⁵⁰. They merge several different tables of risk factors, looking at risk factors at the global, regional, national and sub-national level. The article considers how investments can change risks; for example, irrigation schemes will reduce the risk of drought curtailing the harvest. Similarly, the investment made by some Asian governments in domestic grain reserves reduced their risk in the face of volatility on international markets. The authors use a table developed by Centre de coopération internationale en recherche agronomique pour le développement (CIRAD) researcher, Franck Galtier (2009), to assess policy interventions linked to price volatility and then apply the approach to a broader context⁵¹. Galtier's table distinguishes between public and private action, and between interventions that seek to minimise the risk of volatility occurring as opposed to interventions that are intended to help when volatility occurs. A grain reserve could be a public or a private action taken to reduce the likelihood of volatility, whereas a policy to increase access to subsidised food when prices reach a certain threshold is a public action to mitigate the effects of volatility.

Governments should build a risk profile of the country, to understand where risk might come from and how best to invest resources in order to mitigate it. For example, Ethiopia's food production is structurally deficient (there is never enough to meet demand) and plagued by recurrent production shocks (so the size of the shortfall varies considerably from year to year); its infrastructure and institutions are weak, and it has a large vulnerable population that is either below or near the

50. Ed Clay, Sharada Keats and Piet Lanser (Sept. 2011), "Incorporating global food price spikes into the risk management agenda," ODI. London.

51. Franck Galtier (Nov 2009), The need for public intervention to stabilise prices, Perspective Food Security. No. 2. CIRAD, France.



poverty line, so even relatively small food price increases have a large negative effect on people's wellbeing. Such an assessment makes the costs of a reserve well worth considering: Ethiopia knows it is in part dependent on international markets, but has created a supply cushion in the form of a reserve. Those costs must be offset against the likelihood of a price shock, and the implications of even relatively modest price increases on the scale and extent of poverty in the country.

The ODI paper from Ed Clay and his colleagues proposes five typologies for countries⁵².

1. Countries where pre-shock domestic prices are typically above international prices, because the domestic market and production are insulated from external variability by some combination of trade barriers and domestic agricultural policy. Examples amongst the Asian rice economies are China, India, Indonesia and Malaysia, as well as Japan and South Korea.
2. Food exporting economies with pre-shock domestic prices equivalent to export parity prices that is established by international prices. Amongst Asian rice economies are Thailand and Vietnam. South Africa is in this position for white maize in Sub-Saharan Africa.
3. Economies in structural food deficit and intermittent food importers with domestic wholesale prices close to import parity levels. However transaction costs preclude exports (e.g. Bangladesh and Philippines for rice).
4. Countries with domestic prices fluctuating within a wide band between import parity and export parity prices. Both recorded cereal imports and exports are intermittent, often officially funded including food aid. The wide difference between export parity price and import parity price reflects high transport costs in importing and additionally high transaction costs in exporting to international markets. Malawi is an example.
5. Conflict and post-conflict countries.

Each of these countries has different risks to assess, and different means to pay for the costs of preventive action – as well as the costs of coping with a food price disaster.

52. Ed Clay, Sharada Keats and Piet Lanser (Sept. 2011), "Incorporating global food price spikes into the risk management agenda," ODI. London. p.12.





Photo: Hilal Sobhan / IFSN

Ultimately, it is not global prescriptions but appropriate national responses to crises and their long-term implications that matters. As Mousseau wrote in his assessment of responses to the food price crisis in 2009, “although raising food prices in global markets represents a serious threat to vulnerable countries, it is domestic food price inflation and not world food prices that determines the poverty and food security impact of the international food crisis⁵³.”

Precisely because most developing countries have a complicated mix of domestic and international issues to contend with, they should be careful about blanket prescriptions and advice. The reformed Committee on World Food Security (CFS), housed at the Food and Agriculture Organization of the United Nations (FAO), was specifically given a mandat to provide a forum for countries to learn from one another, and to develop policy proposals that were rooted in country experience. The debate on food price volatility at the CFS in October 2011 was disappointing in this regard, as G20 governments presumed to have the answers and most developing countries kept silent. Yet the African Union's critical response to the G20's Action Plan for Agriculture in July 2011 was clear:

“African countries are not looking forward to depending continuously on external supplies that will remain uncertain in prices and quantities. Actually, our ultimate and unquestionable ambition is to develop our agriculture and markets. In this regard, NEPAD is working towards this goal through its Comprehensive African Agriculture Development Programme (CAADP). In our opinion, we must rely on our own production to meet our food needs. **In fact, importation is not Africa's goal**”. (bold in original)⁵⁴

7.3 Strategic safety nets

One of the documented effects of price spikes, such as those suffered in Niger in 2004, is what is termed the de-capitalisation of households⁵⁵. That is, coping strategies force households to eat seed stock, sell livestock, take children out of school, and in other ways to compromise on their future economic security and wellbeing. This creates long-term chronic poverty out of a crisis whose roots are transitory. Franck Galtier explores the idea of strategic safety nets and proposes multi-year safety nets that deliberately aim at restoring households' resilience to cope with future crises. There are examples of such programmes, such as Malawi's Social Cash Transfers and the Productive Safety Net programme in Ethiopia, but they are too few⁵⁶. None of the ActionAid case studies gives an example of such an approach.

53. Mousseau, Frederic. 2009. The High Food Challenge: A Review of Responses to Combat Hunger. Oakland Institute & the UK Hunger Alliance.

54. NEPAD (2011). African Union/NEPAD Declaration on the G-20 action plan on food-price volatility and agriculture. Midrand, South Africa, New Partnership for Africa's Development Planning and Coordinating Agency.

55. C. Grobler Tanner, June 2006, Understanding nutrition data and the causes of malnutrition in Niger, FEWS Net report. USAID. And, Franck Galtier (May 2011) “What can the international community do to help developing countries manage food price instability?” CIRAD – UMR MOISA, France.

56. Franck Galtier (May 2011) “What can the international community do to help developing countries manage food price instability?” CIRAD – UMR MOISA, France.

7.4 Revisit price stabilisation

The poor history of price stabilisation in much of Sub-Saharan Africa should not discount the historic fact of successful price stabilisation schemes in Europe, North America, and much of Asia⁵⁷. The limitations that many developing countries face in implementing such schemes, particularly the lack of sufficient funding, could be overcome if some of the billions of dollars of development assistance now dedicated to agriculture by donors through various bilateral and multilateral initiatives could include a focus on distribution mechanisms, including prices. The point is not for governments to try to set a price, or to work against the market, but to set a price band within which a number of public policy goals can more easily be realised, including stable and remunerative prices for producers and stable and affordable prices for consumers – not to mention, a return to agriculture sufficient to protect rural development objectives, including employment creation. Markets need parameters so that private actors, including farmers, know how to respond, know what risks they can take, and understand what the consequences will be for cheating, hoarding or otherwise trying to distort the market.

Linked to this proposal is the notion of stocks for international markets. There are several proposals circulating—though none with political traction⁵⁸. However, the analysis is compelling if politically complicated. Few deny that the deliberate policy of eliminating public stocks in major grain exporting countries contributed to the volatility of international markets and exacerbated the impact of the food price crisis. Arguments that public stocks “crowd out” the private sector ignore

57. Ibid.

58. Ian McCreary (March 2011), Protecting the Food Insecure in Volatile International Markets - food reserves and other policy options. Canadian Foodgrains Bank. Also various IFPRI proposals, authored by Maximo Torero and Joachim von Braun, including Implementing physical and virtual food reserves to protect the poor and prevent market failure. 2009.



the evident unwillingness of private grain traders to hold stocks themselves. The public and private sectors have entirely different interests in holding stocks. Private firms have a strong interest in keeping such stocks – which are expensive to maintain – to a minimum.

The notion of stock holding at the local, national, and in some cases regional, levels does seem to have gained some traction. Studies by ActionAid, Oxfam and others in 2011 highlighted the importance of the idea, although the G20 was unable to generate a consensus of support among its members in support of the idea⁵⁹. The case studies illustrate both village grain banks and some investment by national government in stock-holding. This work should continue.

7.5 Reform trade rules

If negotiations on the WTO's Doha Agenda are deadlocked, even arguably dead, the need to reform global trade rules for agriculture is very much alive. In December 2011, The WTO members proved unable to commit to export restriction disciplines of the kind that have been imposed under the Uruguay Round rules on import tariffs; this is a mistake. The point of a multilateral rules based system is to introduce predictability into international trade. Importers need to know that exporters will not exacerbate food shortages by arbitrary use of export taxes, restrictions or bans. These restrictions, however, have their place, especially in smaller developing countries. It is not necessary to prohibit export restrictions. There is, however, an important common interest in having predictable and transparent rules, to avoid the panic that exacerbated the 2007-2008 food crisis at the expense of so many lives. At the heart of the multilateral trade system is the mutual self-interest in predictability; it lies in direct tension with the private interest of speculators in uncertainty.

Similarly, as many countries (and CSOs including ActionAid) have argued for a decade or more at the WTO in Geneva, trade rules need to provide developing countries with more flexibility on their import tariffs. Variable tariffs are too useful a tool to prohibit. They can be managed to limit their trade distorting effects while maximizing their contribution to national food security objectives. The literature developed over the years in relation to the Special Safeguard Mechanism⁶⁰ and the Special Products⁶¹ within the framework of the Doha negotiations have continuing value in this regard. These were proposals developed by developing countries that sought to balance their needs as food importers with the concern to encourage and expand their domestic food production.

As Panos Konandreas and Ramesh Sharma, agricultural economists with the FAO argue, international trade rules need to be rebalanced to better reflect importing countries' interests⁶². Part of developing countries' response to the food price crisis should be continuing investment in improving global trade rules.

G20 should prioritise to resolve the food crisis through:

1. Support countries' ability to feed themselves
2. Establish food reserves
3. Regulate financial speculation
4. Ensure national social safety nets against declining export revenues and rising food import bills
5. Support farmers' organisations
6. Protect access to land, putting a moratorium on large-scale foreign land purchases
7. Promote the transition to sustainable agriculture
8. Defend the human right to food

(De Schutter, O. (2011). Food for All. Project Syndicate. Brussels)

59. ActionAid International, October 2011, No more food crises: the indispensable role of food reserves. Jean-Denis Crola, Preparing for Thin Cows, Oxfam International. June 2011.

60. The Special Safeguard Mechanism is a tool to enable developing countries to raise their tariffs above the bound rates in the event of a fall in price of the imported product or an increase in volume of the imported product, beyond certain levels

61. Special Products are those products, which developing countries have been demanding - in the WTO Doha Round of Negotiations - to exempt from tariff cuts.

62. R.Sharma & PKonandreas (2008), WTO provisions in the context of responding to soaring food prices, FAO Commodity and Trade Policy Research Working Paper No. 25. FAO. Rome. <http://www.fao.org/es/esc/common/ecg/555/en/ESC-WP25.pdf>

7.6 Donor responses

Donors, like national governments in Sub-Saharan Africa, have focused on spending to increase agricultural productivity. Governments of the G8 have fallen far short of their promised \$22 billion in Overseas Development Assistance (ODA) for agriculture, a promise made at the G8 summit in L'Aquila, Italy in 2009. Nonetheless, there has been a significant increase in donor contributions to agriculture since the crisis. It is difficult to separate out what is new in this money (rather than recycled from other ODA commitments), and to know what kinds of grants are receiving support. It would appear that much of the money is for more traditional programmes, despite a noticeable change in rhetoric to be more supportive of small-scale producers (usually called smallholders in the donor literature) and women⁶³. Financial contributions from donors are generally concentrated on technology and productivity, while more difficult political decisions from G20 governments about restructuring international markets to lessen the probability of extreme volatility and possible price spikes have been eschewed. The May 2012 announcement by the G8 of a new Food Security Alliance that will leverage money from the private sector, including Monsanto, Dupont, Cargill and other agribusiness giants, is a big step away from the promises of aid effectiveness and the Rome Principles agreed at the World Food Summit in 2009. The Rome Principles insisted on the importance of national ownership of development programmes. Governments from the developed countries have effectively reneged on their commitments and have instead proposed a deeply flawed alternative. Just as more is needed from African governments to turn agriculture into a vibrant, productive and sustainable sector, so more is needed from donors, too.

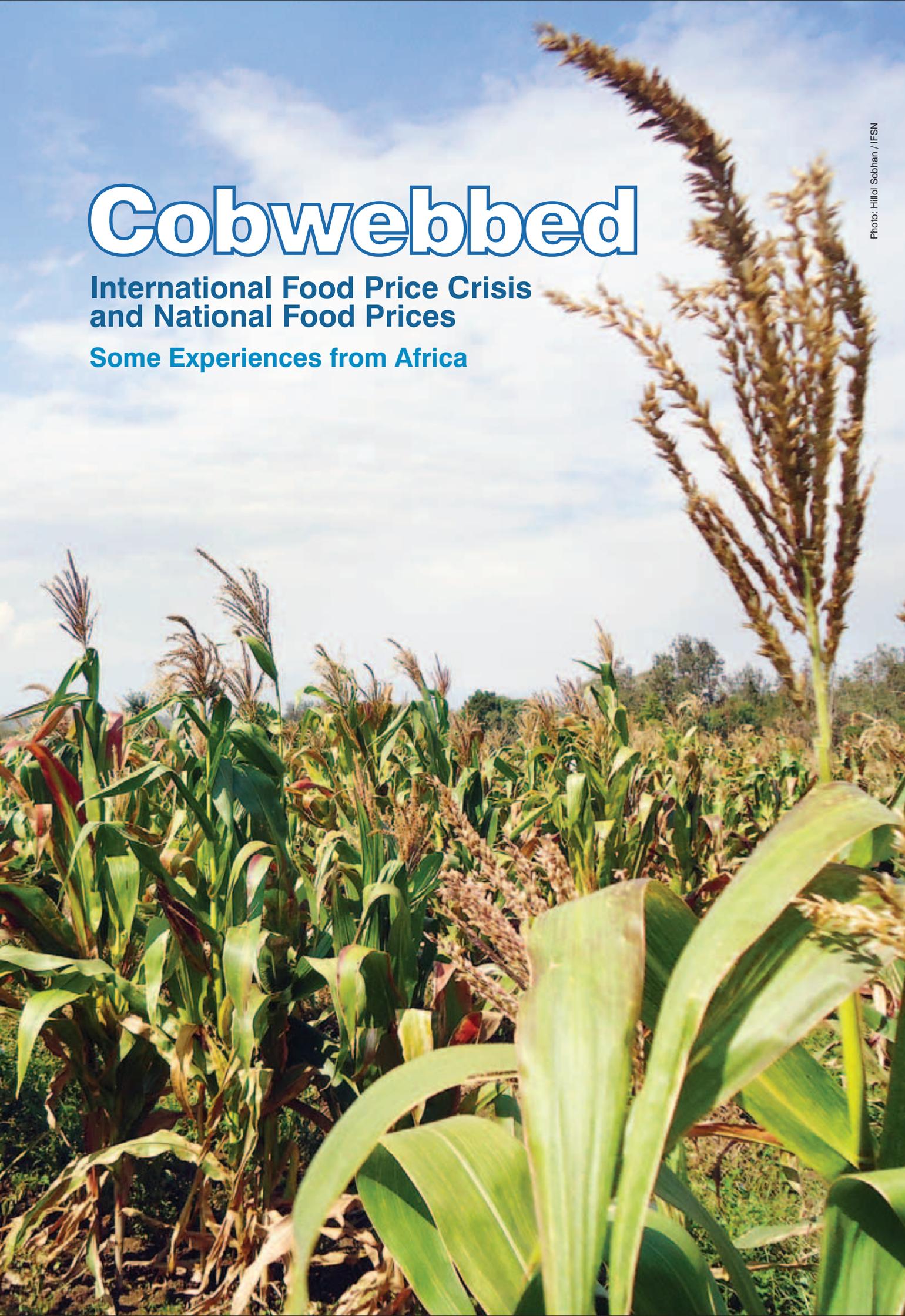
63. Tim Wise & Sophia Murphy (2012), *Resolving the Food Crisis: Assessing Global Policy Reforms Since 2007*. GDAE & IATP, USA.



Cobwebbed

**International Food Price Crisis
and National Food Prices**

Some Experiences from Africa



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