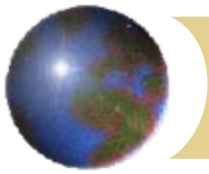


# Managing food price instability: what have (and haven't) we learnt from experiences?

Shahidur Rashid

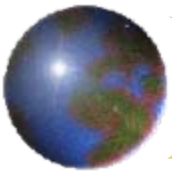
Presented at the COMESA, CAADP, and ACTESA policy seminar  
"Awakening Sleeping Giant: Making Grain Markets Work for the Small  
Farmers and Consumers in Eastern and Southern Africa"

On 10 May 2010 in Lusaka, Zambia

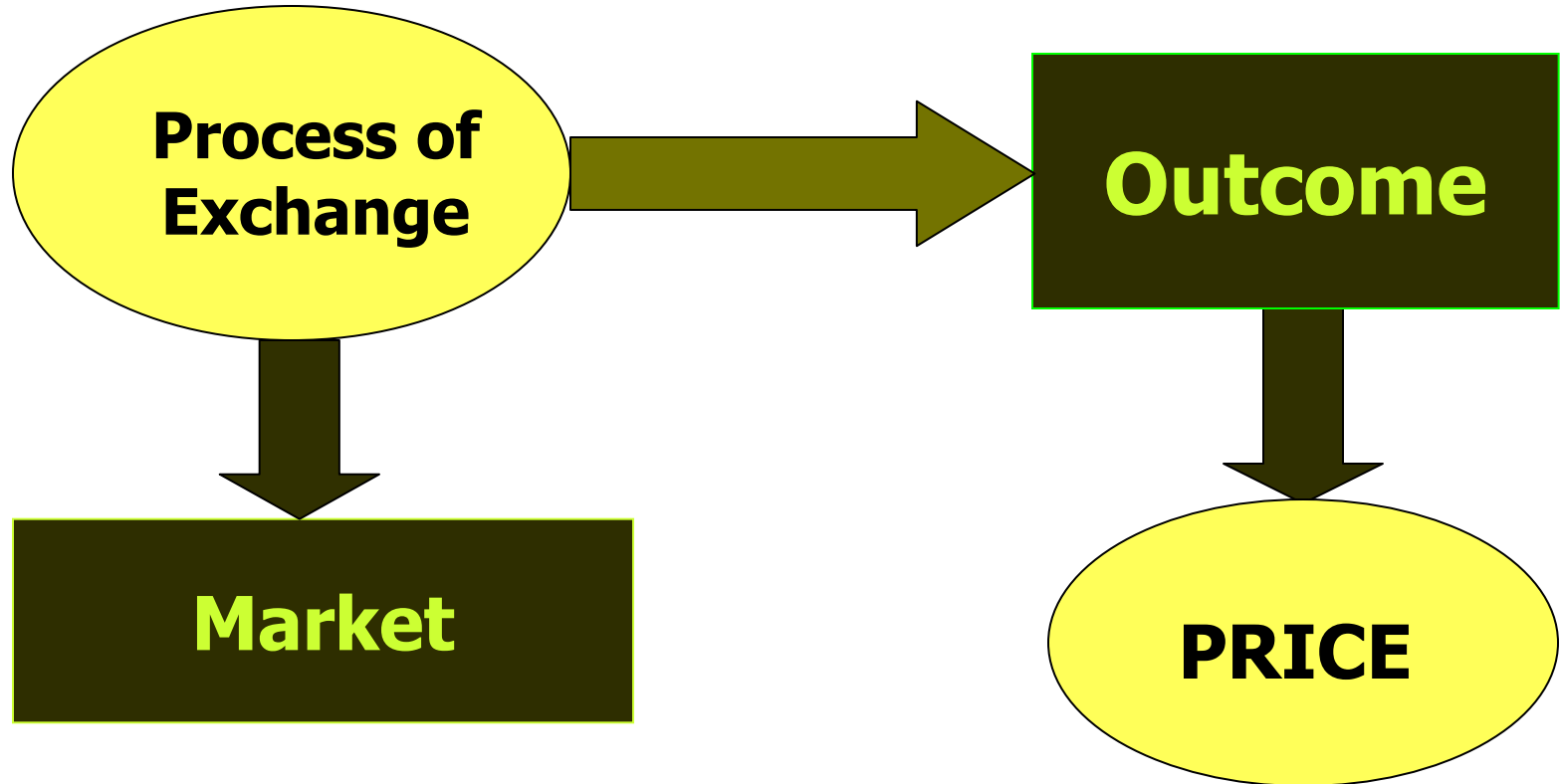


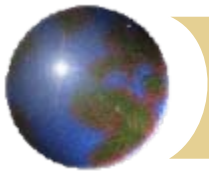
# Outline

- Rationales for managing food price instability.
- Sources of food price instability and traditional policy response
- Critical determinants of policy success.
- The challenges and lessons learned .



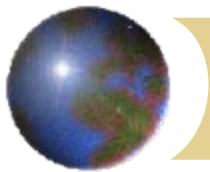
# Understanding market





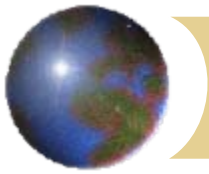
# Rationales for managing price instability

	<b>Commonly given rationales</b>	<b>Economists' terms</b>
<b>1</b>	<b>Inadequate infrastructure</b>	<b>Public goods</b>
<b>2</b>	<b>Imperfect price information</b>	<b>Information Asymmetry</b>
<b>3</b>	<b>Missing credit &amp; insurance markets</b>	<b>Institutional failure</b>
<b>4</b>	Technology promotion (green revolution)	Absence of risk management institutes
<b>5</b>	<b>Volatility of international price</b>	<b>Strategic response</b>
<b>6</b>	<b>Limited capacity to import</b>	<b>Self-sufficiency/ strategic</b>
<b>7</b>	Political sensitivity to price instability	Strategic response



# Sources of grain price variability

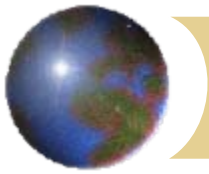
	<b>Source of variability</b>	<b>Explanation</b>
<b>1</b>	Weather-shocks → production variability	Supply shocks → large variation in grain prices
<b>2</b>	Poor infrastructure (including info) and high transaction costs	High transport cost limits trade between surplus and deficit region; and create wider gap in import and export parity.
<b>3</b>	Transmission of global price volatility	World prices are volatile and the volatility gets transmitted if a country is import dependent
<b>4</b>	Unimodal rainfall	Single harvest → greater seasonal variation in grain prices
<b>5</b>	Reliance on one staple	Makes demand for dominant staple inelastic (small supply shock → big change in price)
<b>6</b>	Trade barriers	Creates wider gap between import and export parity, which are bounds of domestic prices
<b>7</b>	Unpredictable policy interventions	Discourages private traders from investing in and carrying out storage and trade.



# Short- and Long term policy options

Effective management of food price instability requires working on the root causes.

- But addressing the root causes of price instability requires time.
- Thus, some short term interventions are thought to be justified, while countries work on the root causes.
- Traditional methods are short term interventions



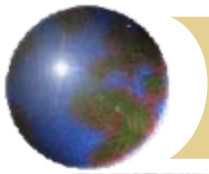
## Short- run approach has been to stabilize prices through public interventions

- Both developed and developing countries have practiced policies of managing price instability; but they vary across countries in terms of design and implementation
- Most African countries managed food price instability through marketing boards, which in some instances eliminated the private sector
- Asian countries adopted dual pricing policies, where government controls a certain share of the market, but the majority of marketing activities were carried out by the private sector.



## Short term interventions: African experiences

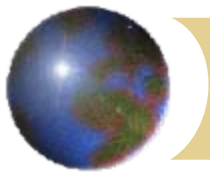
- Governments controlled all aspects of markets
  - ❑ Set production quota at pre-set prices
  - ❑ Prohibited private trade
  - ❑ Pan-territorial pricing (no variation of prices across space or time)
  - ❑ Private sector became non-existent /very small.



# Key elements of Asian dual price policies.

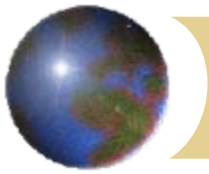
- **Two critical elements: (a) institutions, (b) appropriate regulations**

- ❑ Prices commissions / food security monitoring research
  - ❑ Clear research support
    - ❑ Monitor costs of production; determine floor and ceiling prices; provide market information (both domestic and international)
  - ❑ Linking price policies with social safety net program
    - ❑ Price support to farmer → protection to vulnerable
- ❑ Private sector remained dominant



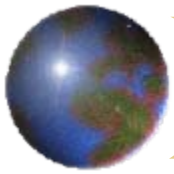
# Distinguishing features of price policies in Africa and Asia

	<b>Indicators</b>	<b>Africa</b>	<b>Asia during green revolt.</b>
1	Smallholder dominant agriculture	√ & X	√
1	Institutional / research supports to policy formulation	X	√
2	Links with strategic reserves and social safety net programs	X	√
3	Clearly defined price band (floor and ceiling price)	X	√
4	Analytical basis of stock determination	√ & X	√
5	Panic response (intervention)	√	√

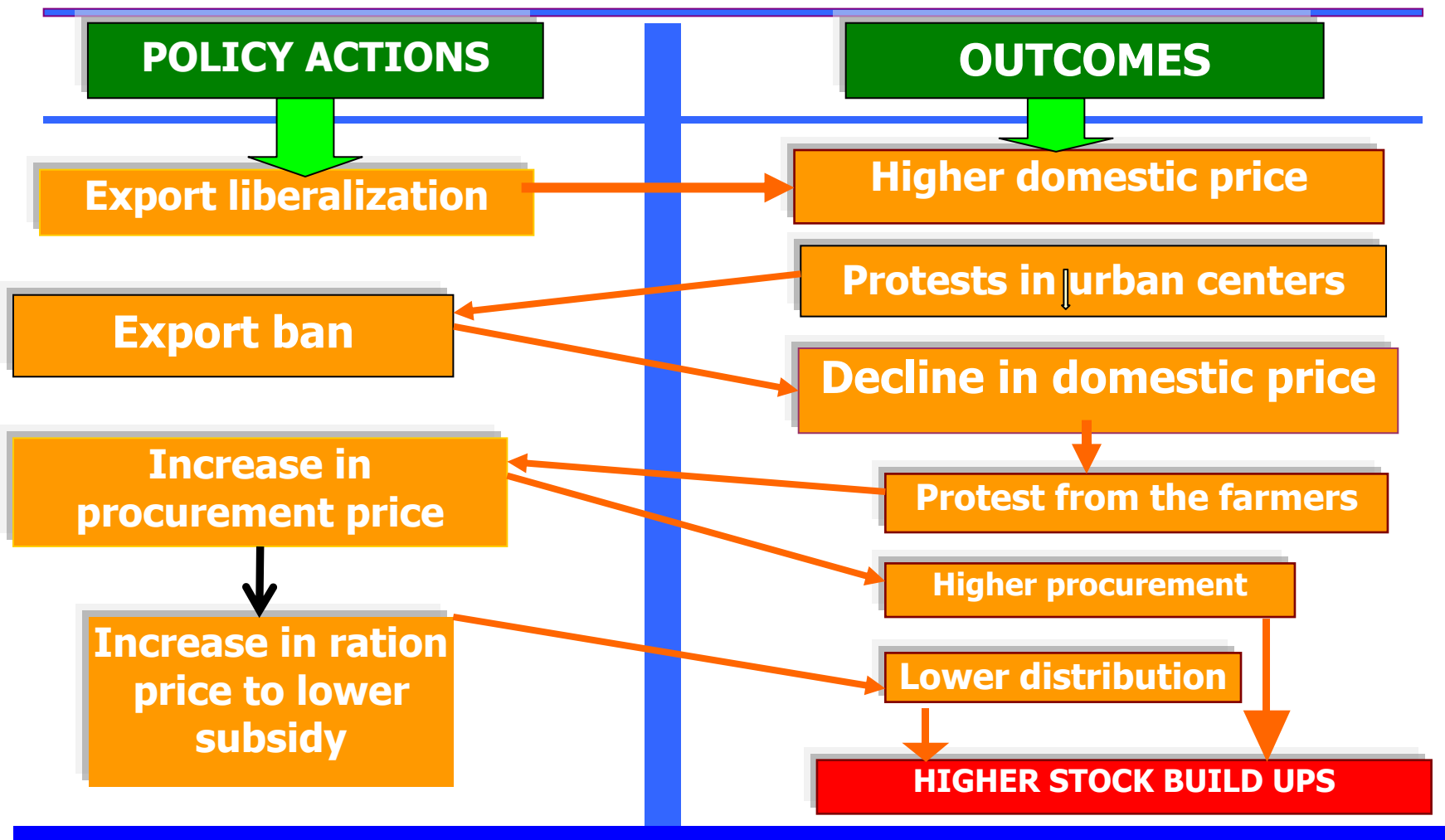


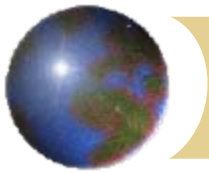
## Challenges of managing price instability (1)

- Political pressure from farmers to set high floor (buying) price; political pressure from consumers to set low ceiling (selling) price
- Managing price instability by holding stocks can be very expensive.
  - Example of costs and food safety.....
- Delays in decision-making and funding mean that interventions occur late, sometimes further exacerbating the price instability
- It can displace private sector from storage activities.



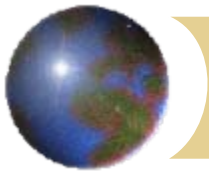
## Challenges: once adopted, hard to get out



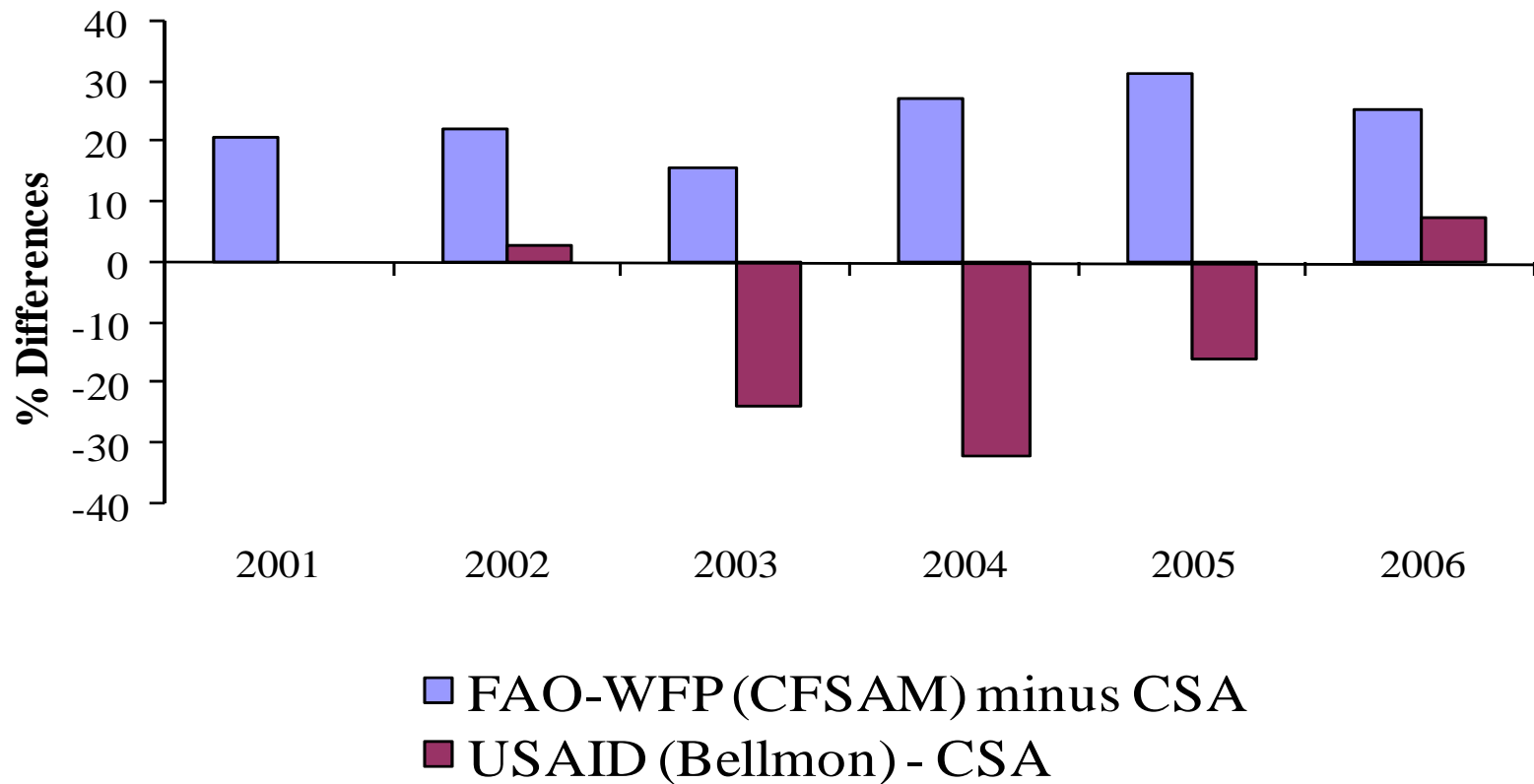


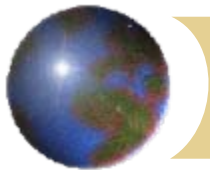
## Long term solutions: how are we doing?

Source of Instability	Remedies to reduce variability	Policy (attention)
Weather-related shocks	Production forecasting, Agric research & extension, supplementary irrigation, develop drought -resistant crops	☹️
Unimodal rainfall	Invest in post-harvest storage technology, allow off-season imports	☹️
Poor transport infrastructure	Invest in roads, bridges, and ports	😊







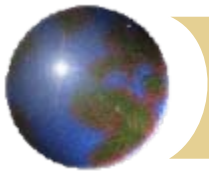
# Variation in crop forecasting





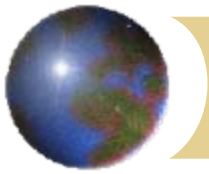
## Remedies for staple food variability (cont)

Source of Instability	Remedies to reduce variability	Policy attention
High transaction costs	Grades and standards, market information systems, commercial credit, contract enforcement	
Trade barriers	Commitment to open borders for grain, streamline paperwork at borders	
Reliance on one staple	Promote secondary staple crops	
Unpredictable policy intervention	Reduce intervention in trade and storage, make interventions predictable	



# Summary (1)

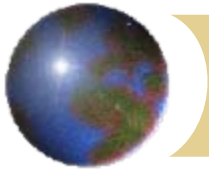
- The ultimate objective should be working on the sources of instability.
  - **We should work on turning all the sad faces into happy faces.**
- Given frequency of emergencies and political sensitivity of price instability, short run interventions might be necessary. However, they should be:
  - **Rule based and backed by empirical analyses**
  - **This will require setting up / strengthening analytical support units**



## Summary (2)

- **Integrating emergency reserves with right kind of social safety nets programs.** This will help:
  - Minimize financial cost of short run policies; reduce disincentive effects;
  - More importantly, such linkage has the potentials to create demand, protect livelihood, and contribute towards building an educated, healthy, and productive labor force.





**AMASEGANALU!!**