



## Managing food price instability in East and Southern Africa

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### ABSTRACT

This article intends to provide pragmatic guidance for avoiding the more severe problems of food price instability in east and southern Africa. I first summarize the empirical record of food price stabilization efforts in the region, and highlight recurrent aspects of farm survey data with implications for price stabilization strategies. I highlight the understudied problem of strategic interactions between the public and private sector in food markets, associated problems of credible commitment, and how such problems are often at the heart of food crises frequently witnessed in the region. It is argued that by accepting a moderate level of price fluctuation within established bounds under a rules-based approach to intervention, African governments will reduce their chances of facing severe food crises.

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### 1. Introduction

Food price instability causes real political, economic, and social problems.<sup>1</sup> The premise of this article is that in countries with substantial numbers of poor people, governments cannot afford to take a *laissez faire* approach to food price instability. The question, therefore, is not *whether* to manage food price instability, but *how*.

This article grapples with why food price stabilization to date has had a mixed record of success in sub-Saharan Africa. Over the past two decades, several of the countries most actively attempting to stabilize prices through marketing board operations and trade policy have experienced the greatest price volatility in the region (Fig. 1).<sup>2</sup> The article starts by briefly reviewing governments' food price stabilization efforts. While the experience is varied, some consistent themes and outcomes can be identified

for the major grain producing countries. Importantly, strategic interactions between the public and private sectors in grain markets are often at the core of food price crises in the region. I also highlight recurrent findings from farm and consumer surveys that have important implications for price stabilization policy. Based on these findings I then assess the three major policy stances that African governments can consider for managing food price instability, their strengths and weaknesses, and possible ways forward.

### 2. A brief history of food price stabilization policies in east and southern Africa

Many governments in the region have pursued food price stabilization policies throughout their histories, even during their periods of ostensible market liberalization. White maize is the strategic political crop in most of eastern and southern Africa, and food price stabilization has centered mainly on this crop. Contemporary maize price stabilization in the region is driven by two main factors.

First, the countries relying most heavily on food marketing boards offering above-market floor prices to farmers tend to have colonial legacies with bi-modal farm structures and powerful farm lobbies. Historically, farm lobbies have been strongest in the countries with European settler agriculture, such as Zimbabwe, Zambia, and Kenya (Keyter, 1975; Mosley, 1983). Large commercialized farmers benefit greatly from price supports, and the farm lobbies in these countries primarily represented their interests in the political process. After independence, maize became the cornerstone of an implicit and sometimes explicit 'social contract' that the post-independence governments made

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<sup>1</sup> Not all price variability is bad; in fact some kinds of price variability is necessary for the smooth functioning of markets (e.g., seasonal price rises to provide returns to storage). It is typically the wide inter-annual swings in food prices and the unpredictable component of food price instability that cause the most harm. Among the seminal works that demonstrate these points are Schultz (1945), Newbery and Stiglitz (1981), Timmer (2000), Timmer (2010), and Naylor and Falcon (2010).

<sup>2</sup> A recent study of inflation-adjusted maize prices in eight countries in Eastern and Southern Africa covering the period 1994–2009 found that two of the countries having taken the most aggressive steps to stabilize food prices in the region, Zambia and Malawi, have experienced the most volatile food prices (Chapoto and Jayne, 2009). These same two countries were also found to have the most unpredictable real price movements as well, modeling unpredictability as the squared errors of one-month ahead forecast models.

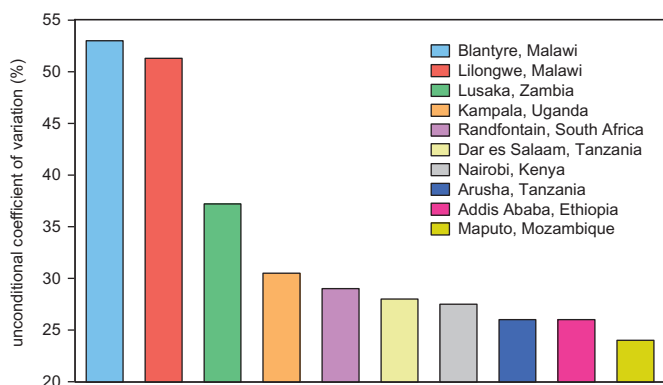


Fig. 1. Comparison of unconditional coefficients of variation of CPI-adjusted monthly maize prices, major markets in East and Southern Africa, 1994–2009.

Source: Chapoto and Jayne (2009).

with the African majority to redress the neglect of smallholder agriculture during the colonial period (Jayne and Jones, 1997). This commitment has been maintained and strengthened in recent years with the rise of a privileged class of “emergent” African farmers, many of whom have acquired land with the help of political connections (Deininger and Byerlee, 2011; Sitko and Jayne, forthcoming). Because they tend to be relatively large surplus grain producers, their interests are united closely with the more traditional large-scale commercial farmers. The “indigenization” of the formerly white farm lobbies has provided new impetus for price stabilization – and protection – of staple food grains through strong marketing board operations, whereas countries with less powerful farm lobbies such as those in West Africa have largely abandoned them (Anderson and Masters, 2009; Masters and Garcia, 2010).

The second factor explaining government use of food price stabilization policies has to do with longstanding concern for the effects of price instability and in particular, high food prices, on poor rural and urban consumers. In this respect, there is much less regional difference; most governments throughout sub-Saharan Africa are strongly committed to keeping food prices from rising beyond tolerable levels as demonstrated by government responses to the 2007/2008 world food price crisis. However, despite their efforts, most governments in the region were unable to prevent domestic food prices from rising up to, or exceeding, import parity levels during the 2008/2009 crisis (Minot, 2011).

While the social contract approach achieved varying levels of success in promoting smallholder incomes and raising consumer welfare, a common result was an unsustainable drain on the treasury. The cost of supporting smallholder production – through input subsidies, credit programs with low repayment rates, commodity pricing policies that subsidized transport costs for farmers in remote areas, and the export of surplus production at a loss – contributed to fiscal deficits in the 1980s and early 1990s and, in some cases, macroeconomic instability. Under increasing budget pressure, international lenders gained leverage over domestic agricultural policy starting in the 1980s, which culminated in structural adjustment programs. While structural adjustment is commonly understood to be a decision that international lenders imposed on African governments, some form of adjustment was clearly unavoidable due to the mounting fiscal crises that the social contract policies were imposing on government treasuries (Jayne and Jones, 1997). Continuation of *status quo* policies was not an option in many countries, and in some of these, the controlled marketing systems had already broken down even prior to liberalization as parallel markets swiftly became the only viable channel for most farmers and consumers. Moreover, the erratic

performance of the state-led systems, reflected by frequent shortages of basic commodities and late or partial payments to farmers, created support for reform among some domestic constituencies (Jayne and Jones, 1997).

The rise of multi-party electoral processes in the early 1990s has, however, made it difficult for governments in these countries to withdraw from ‘social contract’ policies. Elections can be won or lost through policy tools to reward some farmers with higher prices and reward consumers with lower prices, and this is hardly unique to developing countries (Bates, 1981; Bratton and Mattes, 2003; Sahley et al., 2005; Masters and Garcia, 2010). Because they provide demonstrative support for millions of small farmers and consumers, a retreat from the social contract policies exposes leaders to attack from opposition candidates. For this reason, it remains difficult for leaders to publicly embrace market liberalization, even as they accepted structural adjustment loans under conditionality agreements from international donors to reform their internal and external markets.

Starting in the late 1990s, the transition of the World Bank and other development partners from structural adjustment loans with *ex-ante* conditionality to direct budget support and debt forgiveness made it easier for African governments to reinstate some elements of the social contract policies. Price stabilization policies have consequently re-emerged in much of the region. Since the early 2000s, grain marketing boards have once again become the dominant players in the market in Kenya, Malawi, Zambia, and Zimbabwe.<sup>3</sup> Each of these countries has a highly unpredictable and discretionary approach to grain trade policy, commonly imposing sudden and unanticipated export and import bans, changes in import tariff rates, or issuing government tenders with opaque selection criteria for private firms to import grain at highly subsidized prices. Uncertainty about whether and when governments will alter import duties, import intentions, and/or the prices at which they will release buffer stocks onto domestic markets leads to problems of credible commitment and strategic interactions between the public and private sectors (Jayne et al., 2006; Tschirley and Jayne, 2010; Ellis and Manda, 2012). Traders otherwise willing to mobilize imports are likely to incur financial losses if the government later waives the duty and allows competing firms (or the government parastatal) to import more cheaply. When governments create uncertainty over import intentions or tariff rates during a poor crop season, the result is commonly a temporary under-provision of imports, which can produce a situation of acute food shortages and price spikes far above the cost of import (Tschirley and Jayne, 2010; Abbink et al., 2011). These illustrations highlight the important and understudied role of strategic interactions between the public and private sectors that can arise under discretionary and ad hoc approaches to price stabilization.

In conclusion, while price stability may contribute to economic growth, price stabilization efforts have often not contributed to price stability. The weight of the research evidence in Africa shows that price stabilization has only occasionally contributed to price stability and in many cases has exacerbated it, at massive costs and foregone investment in other areas where positive impacts might otherwise have been achieved (Kherallah et al., 2002; Dehn et al., 2005; Byerlee et al., 2006; Tschirley and Jayne,

<sup>3</sup> Marketing board operations have generally been more modest in recent years than during the control period. However, they continue to be major actors in their countries’ maize markets. Using data provided by the national marketing boards between 1995 and 2009, the boards’ annual purchases have fluctuated from an estimated 9–57% of the domestic marketed maize output in Kenya, 3–46% in Malawi, and 12–91% in Zambia. These figures understate the boards’ full impact on markets because they do not count their often sizeable importation of maize and subsequent release onto domestic markets (Jayne et al., 2010).

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