

Addressing Problems of Price Instability in Staple Food Value Chains



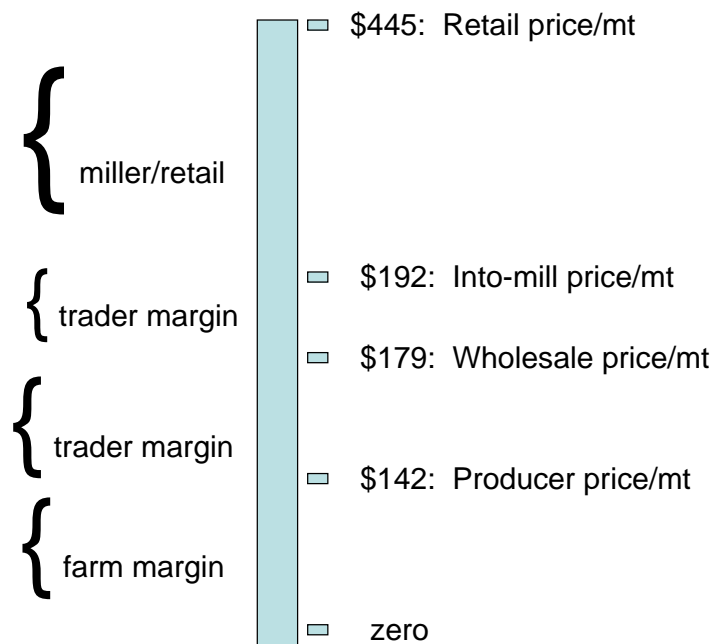
T.S Jayne

TCI Seminar, FAO Headquarters
July 19, 2007

Major challenge:

- Need new farm technology and marketing technology to reduce costs in the value chain.

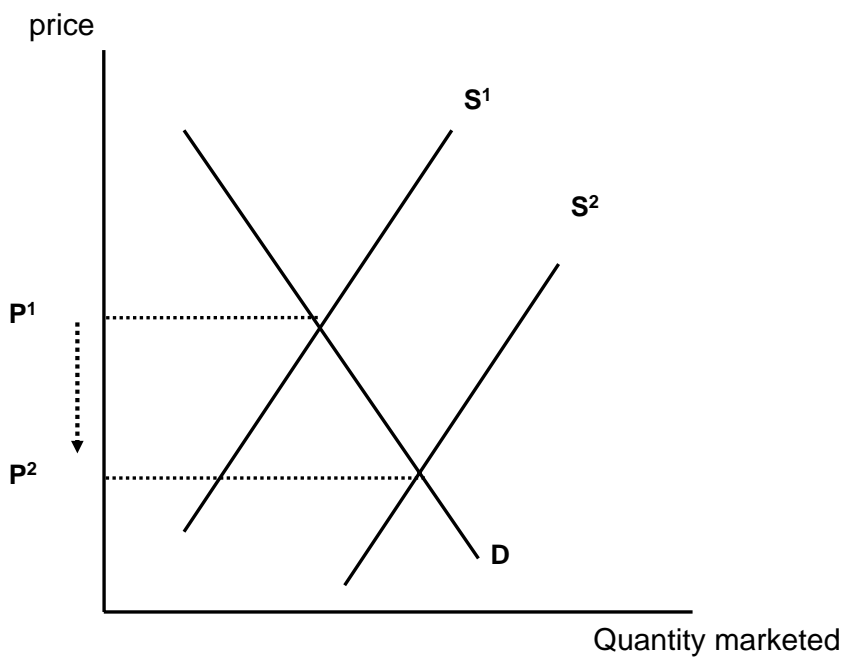
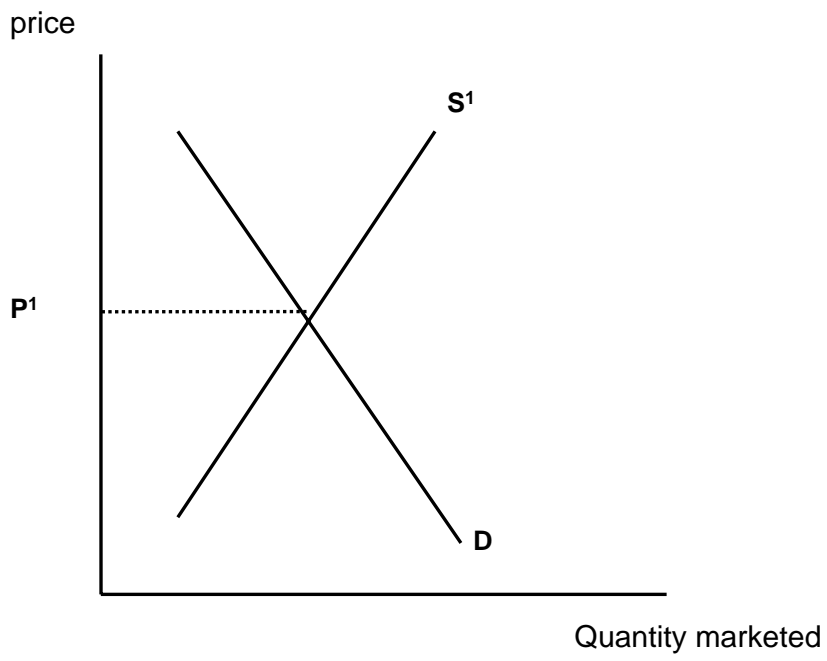
Interdependence in the value chain



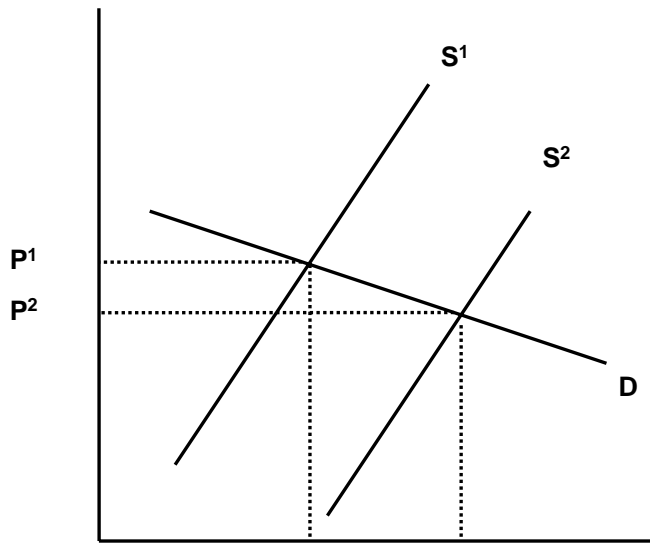
Main problem:

- Need new farm technology and marketing technology to reduce costs in the value chain.
- If demand is inelastic, increased supply causes prices to plunge
- Price plunges discourage farmers → dis-adoption of the improved farm technology → agricultural stagnation
- Unless the system is integrated (credit, input delivery, output market access) then constraints at one stage can cause systemic failure

Problems with Supply-Driven Production Expansion



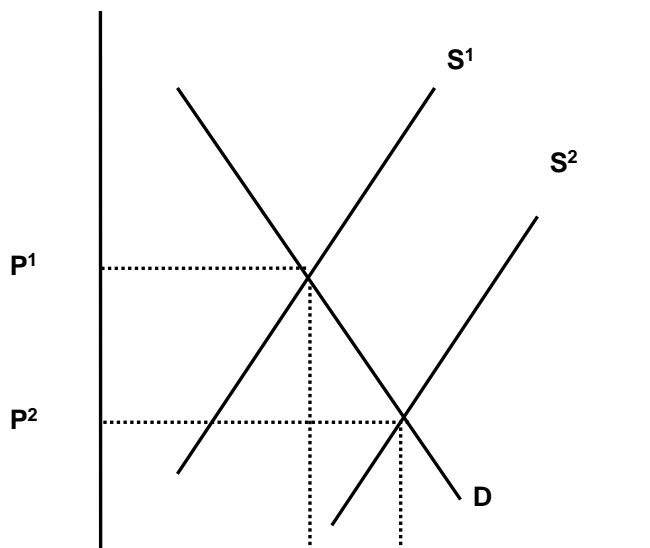
Slope of demand curve influenced by:



- transport infrastructure
- how diversified are food consumption patterns
- extent of investment in storage
- seasonal finance markets
- market institutions (e.g., warehouse receipt systems)
- trade / policy barriers (e.g., export bans, import tariffs)

MOST OF THESE FACTORS ARE INFLUENCED BY GOVERNMENT BEHAVIOR

Slope of demand curve influenced by:



- transport infrastructure
- how diversified are food consumption patterns
- extent of investment in storage
- seasonal finance markets
- market institutions (e.g., warehouse receipt systems)
- trade / policy barriers (e.g., export bans, import tariffs)

MOST OF THESE FACTORS ARE INFLUENCED BY GOVERNMENT BEHAVIOR

Markets still burdened by numerous policy and regulatory barriers

- Examples: traders wanting to move product from N. Mozambique to southern Malawi need to get export permit in Quelimane
- Vacillations in trade policy inhibit bank financing for grain purchase (Uganda-Kenya example)
- Decentralization of marketing regulations creates hodge-podge of differing and inconsistent rules governing inter-district trade → rife for rent seeking, higher marketing costs

Therefore....a major priority for food value chain development

- **How to make demand more elastic:**
 - How to vent surplus production to other areas of the region – promote regional trade
 - How to promote food consumption diversification for locally/regionally-produced crops
 - How to develop alternative (non-human food) uses of staple food (e.g., livestock/poultry industry)
- Progress on these will enable markets to better absorb supply expansion w/o depressing prices

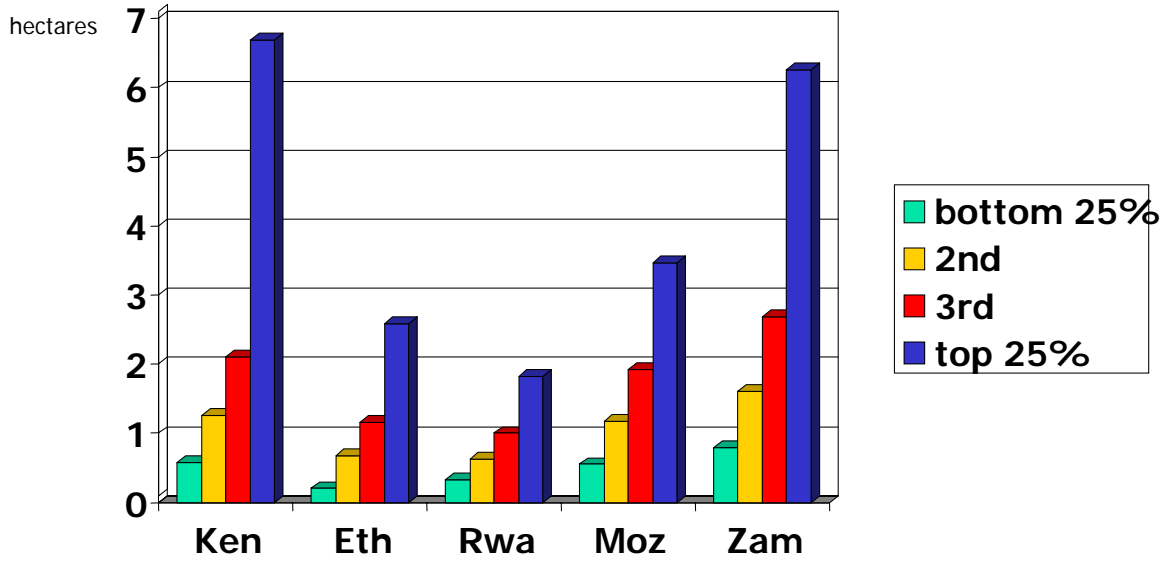
Are world prices heading higher?

- Bio-fuels: grain markets becoming integrated with petrol markets
- China most likely becoming a major importer

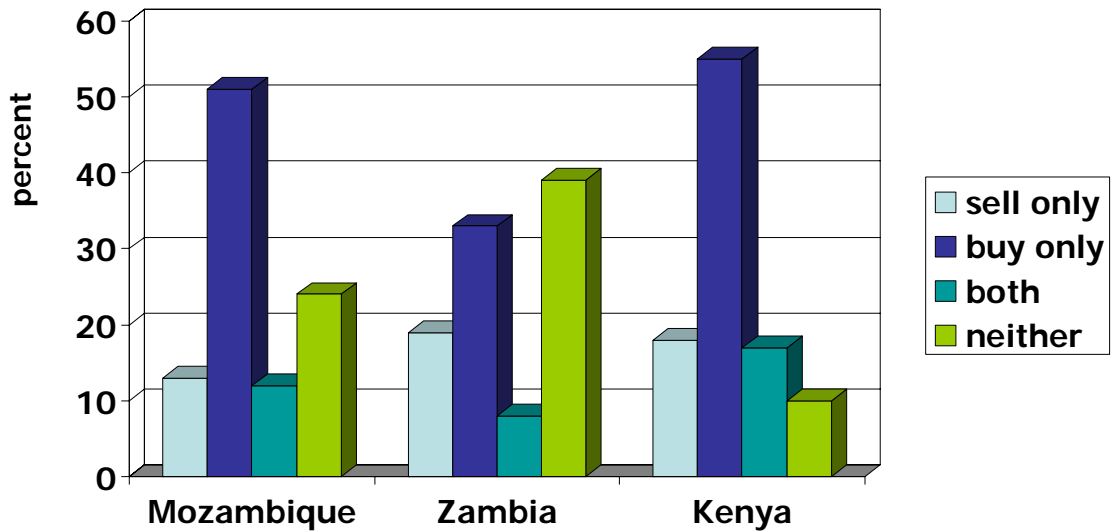
Who will benefit from higher food prices?

- Depends on supply response
- Supply response depends on assets and land
- Recall smallholder landholding patterns

Farm size distribution: Small farm sector



Smallholder Households' Position in the Maize Market



-
- Most rural farm households are buyers of maize (or net buyers)
 - 2% of households account for 50% of marketed grain surplus
 - Crop price supports:
 - highly concentrated benefits
 - anti-poor
 - Most likely impede small farm diversification into higher-valued activities

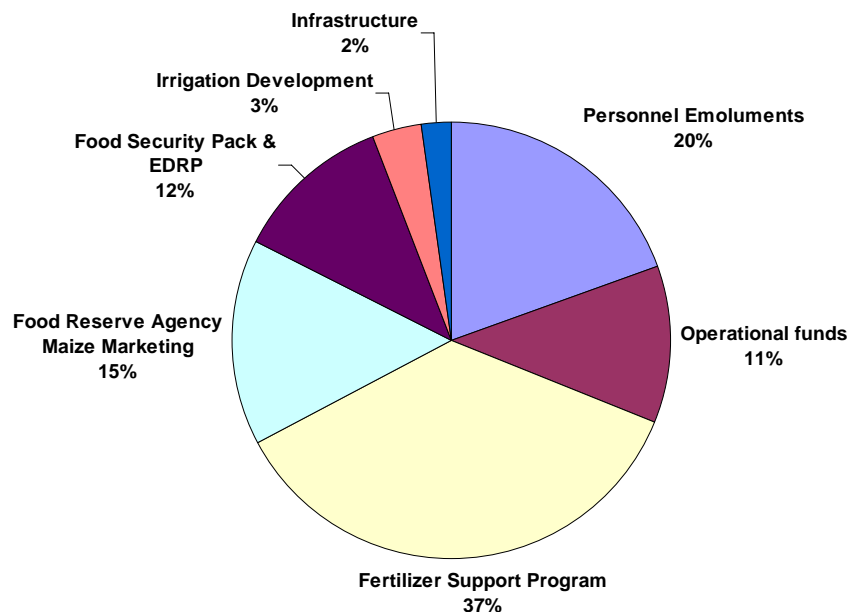
Priorities for Program Design

1. R & D: (Alston, Grilliches, Mellor)
2. Education: turns information into knowledge (Johnston)
3. Extension systems: farm management (Evenson)
4. Infrastructure: road, rail, port, communications (Antle)
5. Investments in health and addressing HIV/AIDS (Binswanger)

Priorities for Program Design

- Remove barriers to trade
 - streamline customs clearance, licensing procedures
 - remove import tariffs
 - eliminate sporadic export bans
 - eliminate internal taxation of grain movement
 - Harmonize inter-district
- Invest in rail and road infrastructure
- Need close consultation, coordination and transparency between government and private sector

Budget allocation to Agricultural Sector in Zambia: ZMK465 million in 2005



Getting Markets Right: What does this mean?

- Not getting government out of markets
- Changing the *role* of government from direct intervention to supportive investments to make markets work
 - Public goods investment
 - Support development of farmer organizations
 - Create “stable” policy environment: Clear, rule-based public operations in markets
 - Commodity risk management tools (e.g. warehouse receipt systems)
 - Greater transparency and consultation needed between private and public sectors
- Public investments to open up new land – stimulate migration

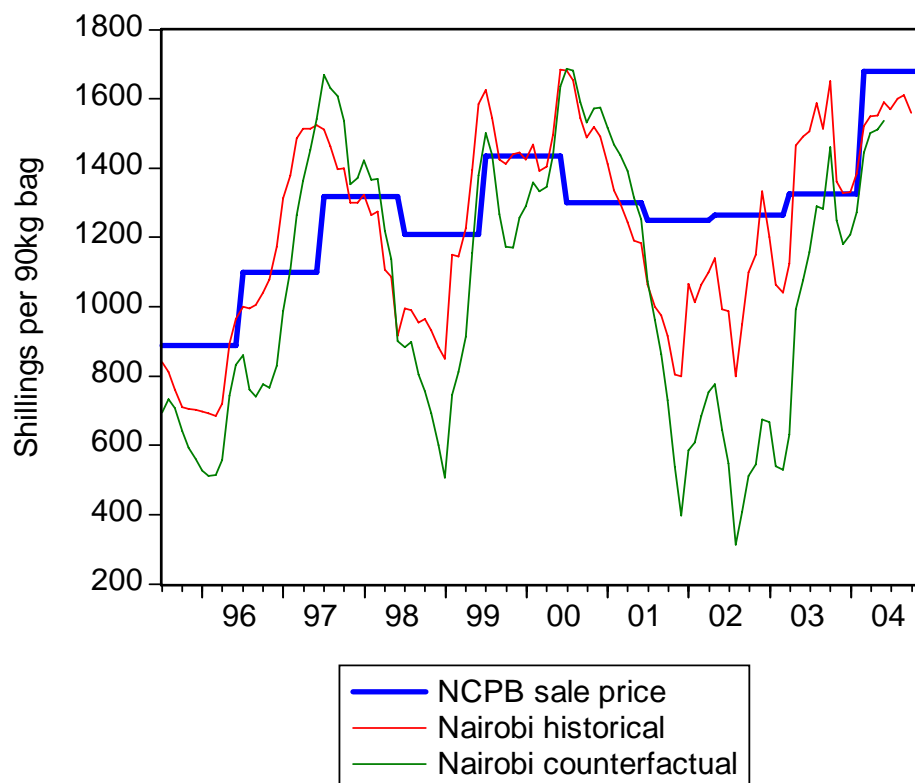
Policy response (cont.)

- Lobby forcefully for more level playing field in international trade
 - OECD support for Africa: \$50 bill./yr
 - OECD ag. subsidies: \$350 bill./yr
 - Reassess developed country policy of dumping free food in Africa under guise of “food for development”



thank you

NCPB and Nairobi market prices, 1995-2005, Kenya



NCPB and Nairobi market prices, 1995-2005, Kenya

