Persistence of high food prices in Eastern Africa: What role for policy?

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ASARECA
Transforming Agriculture for Improved Livelihoods

Outline

- Introduction
- Food Price Situation in ESA
- Regional Dimensions
- Recommended Policy Options

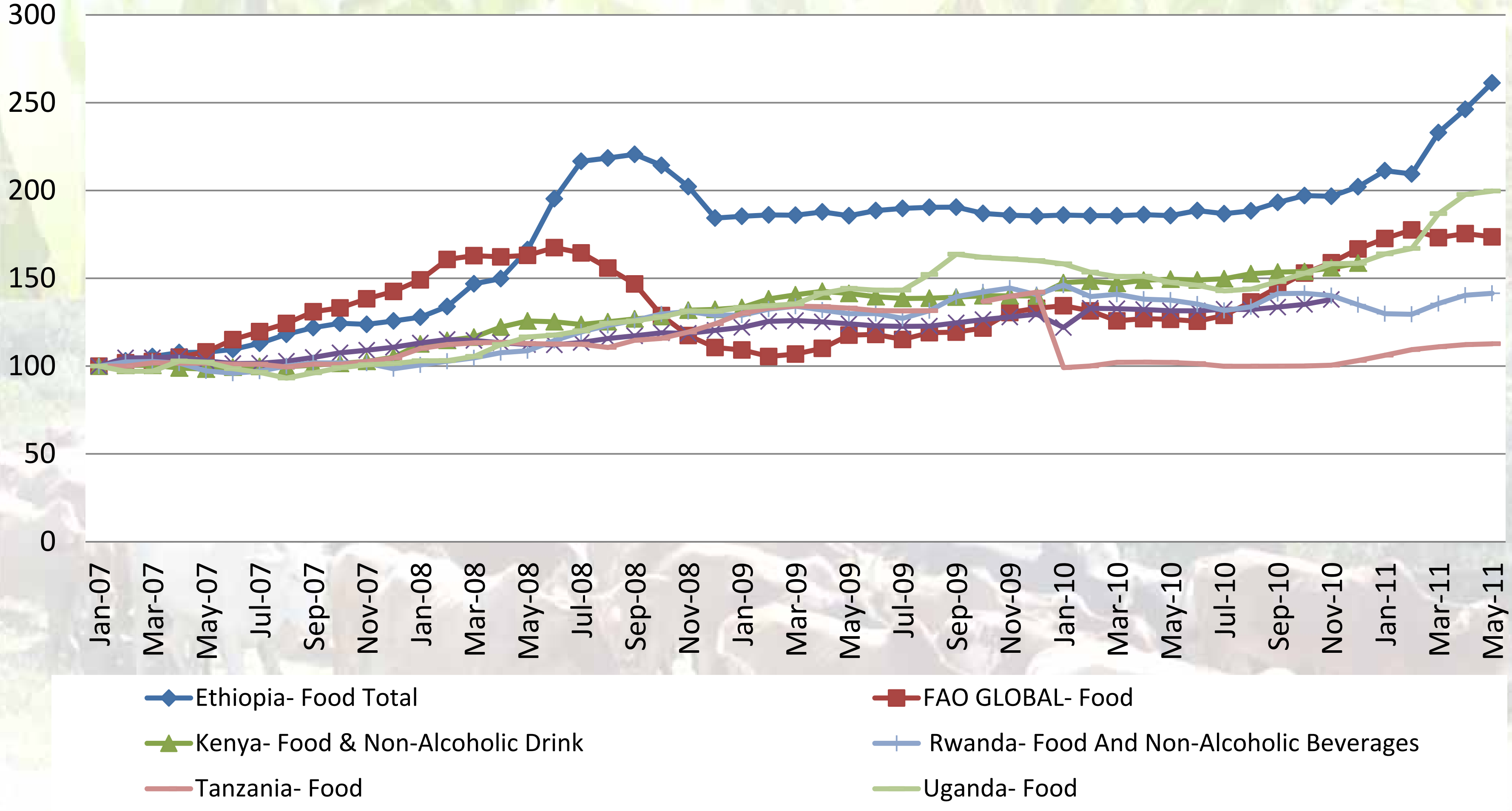
Introduction (1)

- Global food price index (FPI) embarked on a downward spiral by July 2008 and remained low and stable for some time
- Domestic FPI in Eastern Africa (EA) region on the other hand continued to increase after food crisis, notably in Kenya, Tanzania, Uganda, Ethiopia and Djibouti
- In the first half of 2010, global and domestic food prices eased but remained higher than their historical trends

Introduction (2)

- The decline did not present any immediate relief to the food crises – largely influenced by good weather conditions
- Both global and domestic food prices have risen to historic highs beginning January 2011
- Significant challenge to reduction of poverty and hunger

Comparing FAO Global and EA countries FPIs



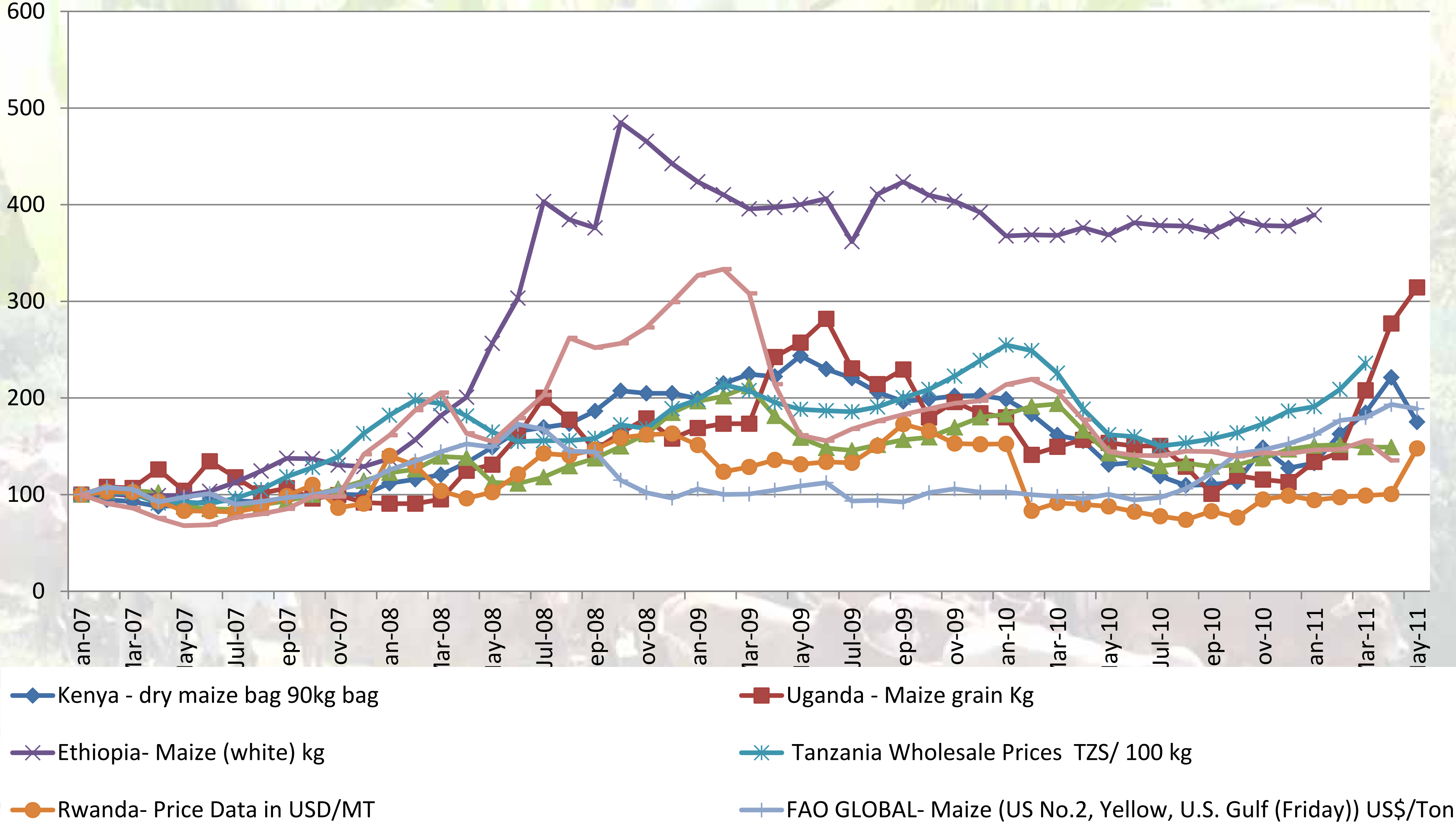
Source: FAO, 2011; country statistics offices

Objective and Approach

- Effective policy action requires evidence based information on the magnitude and implications of price changes at the country and regional level

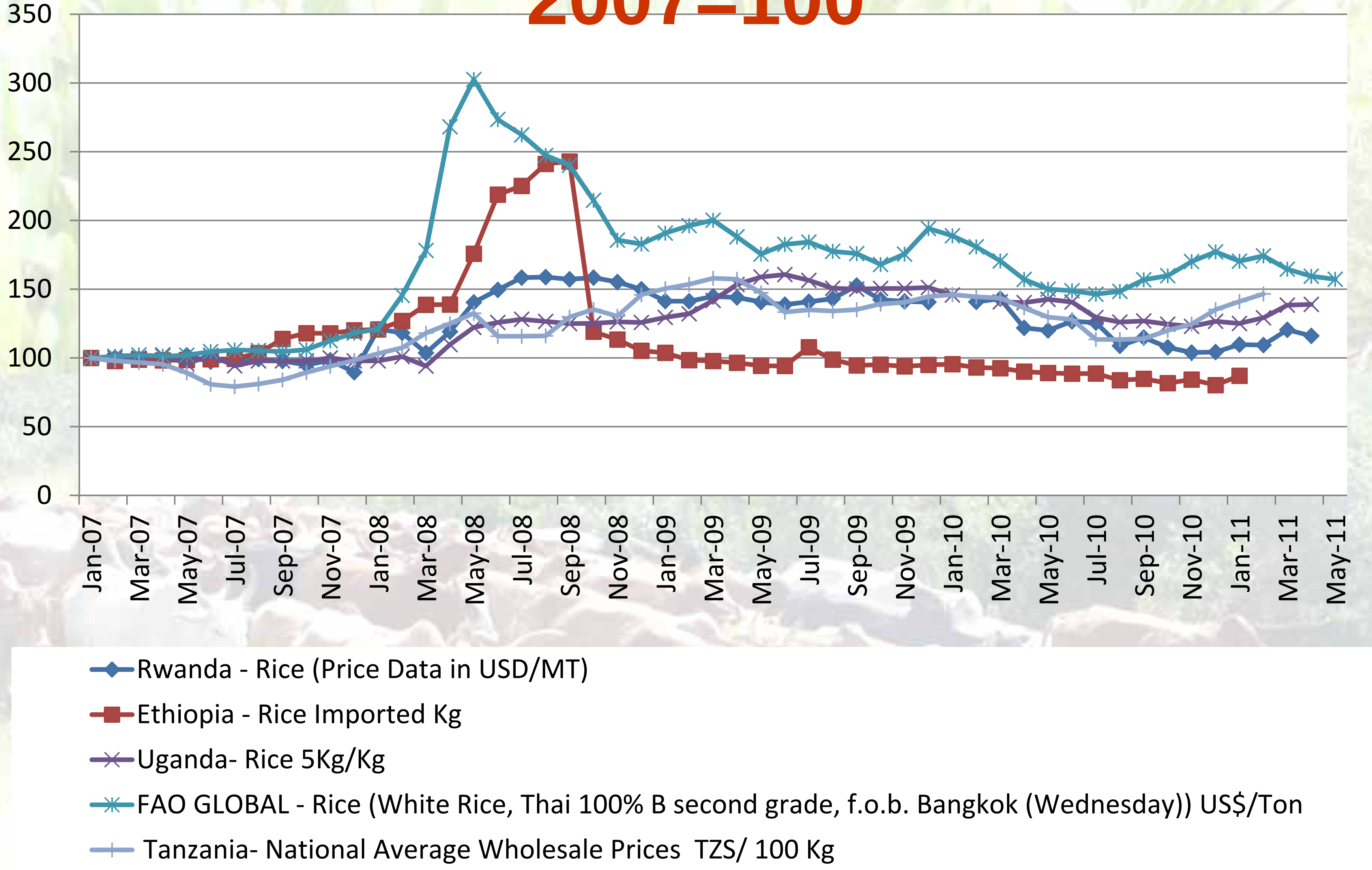
- Approach
  - Data – continuous update of trends
  - Consultations among policy advisers, analysts and researchers from national, regional and international organizations

Maize price indices in EA and global 2007=100



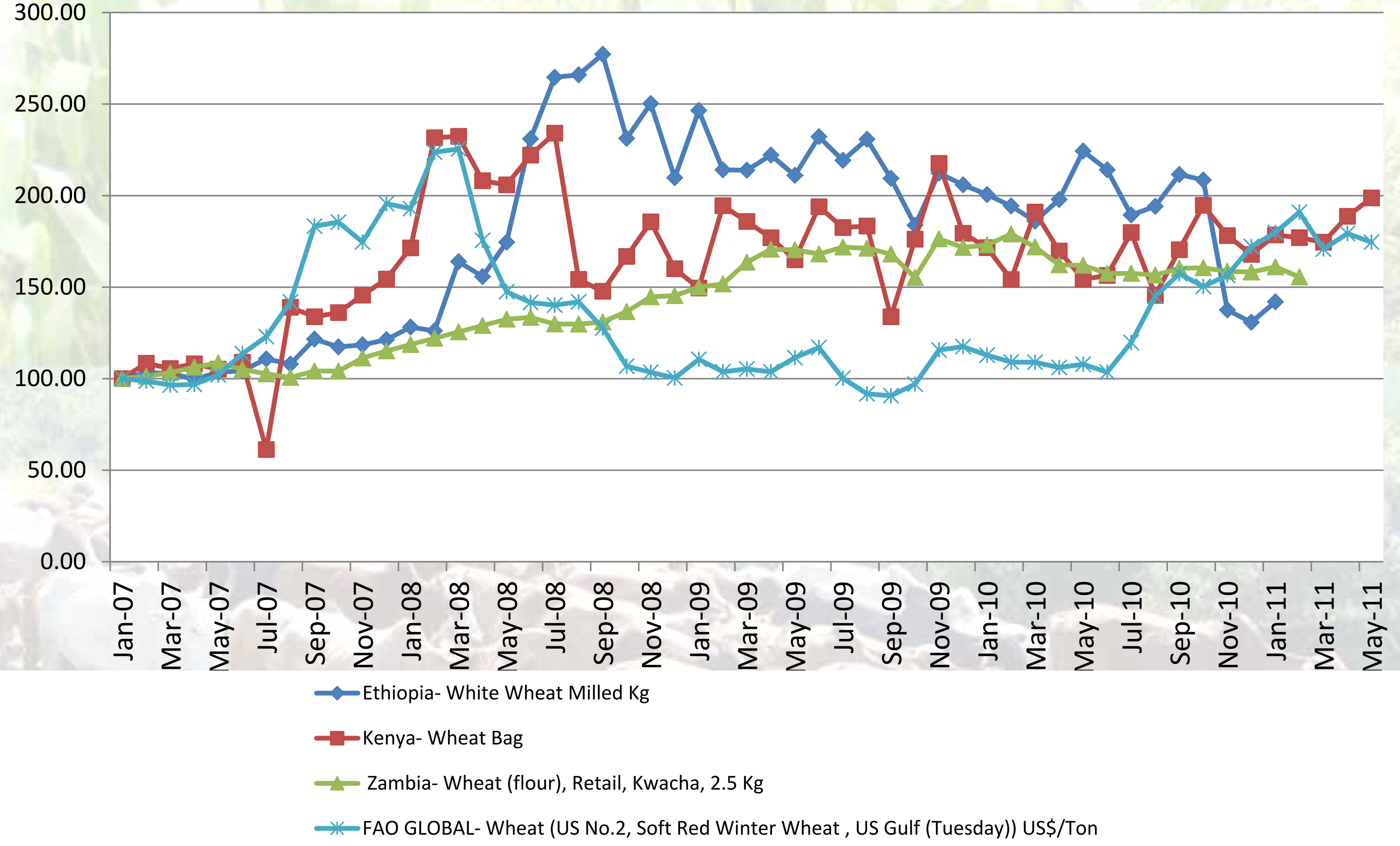
Data Source: a) FAO Commodities and Trade Division; b) Ethiopia: Central Statistical Agency; c) Tanzania: Bank of Tanzania; d)Uganda: Uganda Bureau of Statistics; e)Rwanda: RATIN; h) Kenya: Ministry of Agriculture

Rice Price Indices in EA and Global 2007=100



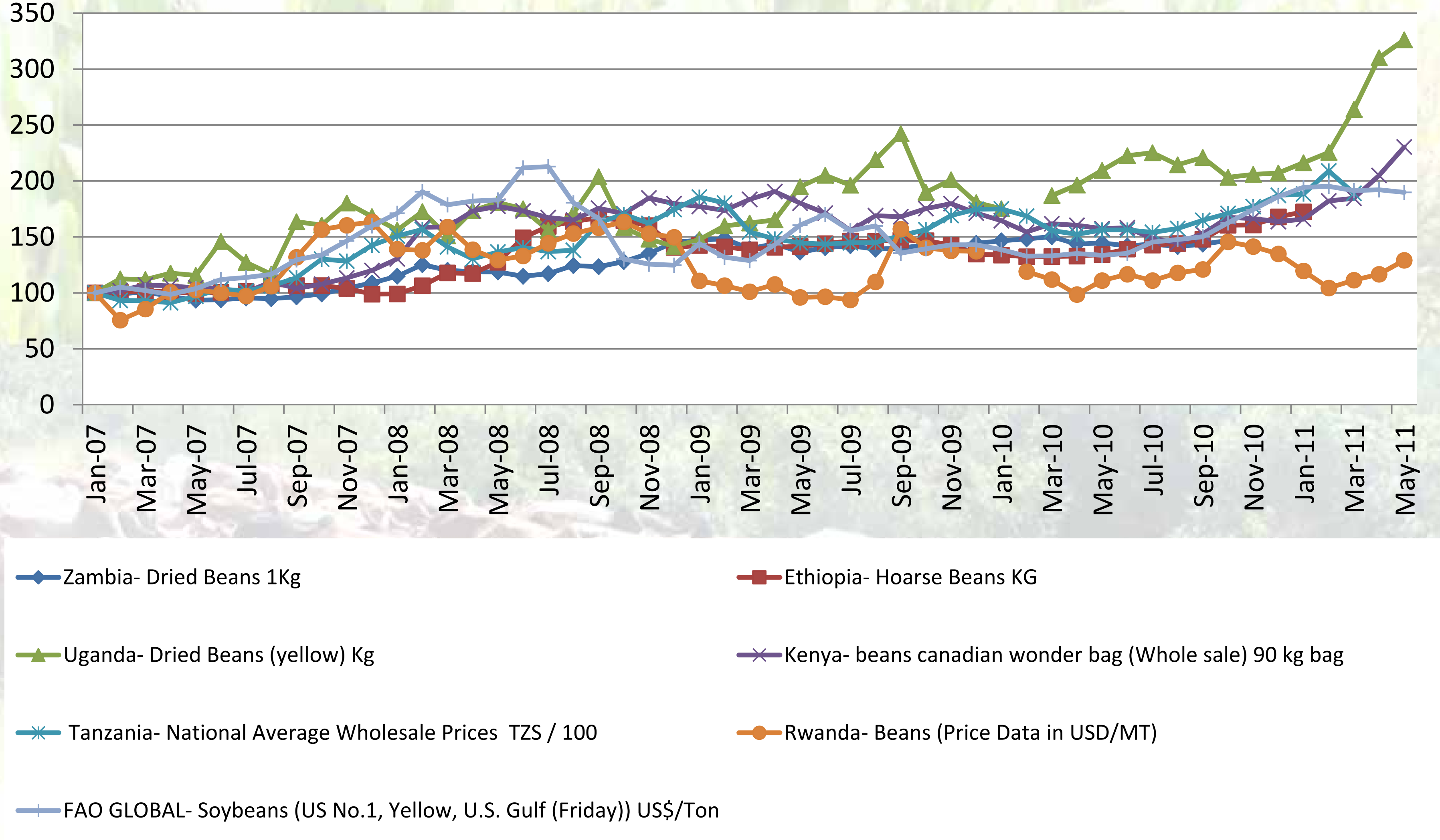
Data Source: a) FAO Commodities and Trade Division; b) Ethiopia: Central Statistical Agency; c) Tanzania: Bank of Tanzania; d)Uganda: Uganda Bureau of Statistics; e)Rwanda: RATIN; f) Zambia: Central Statistical Office (CSO) ; g) Madagascar: Institut National de la Statistique

Wheat Price Indices 2007=100



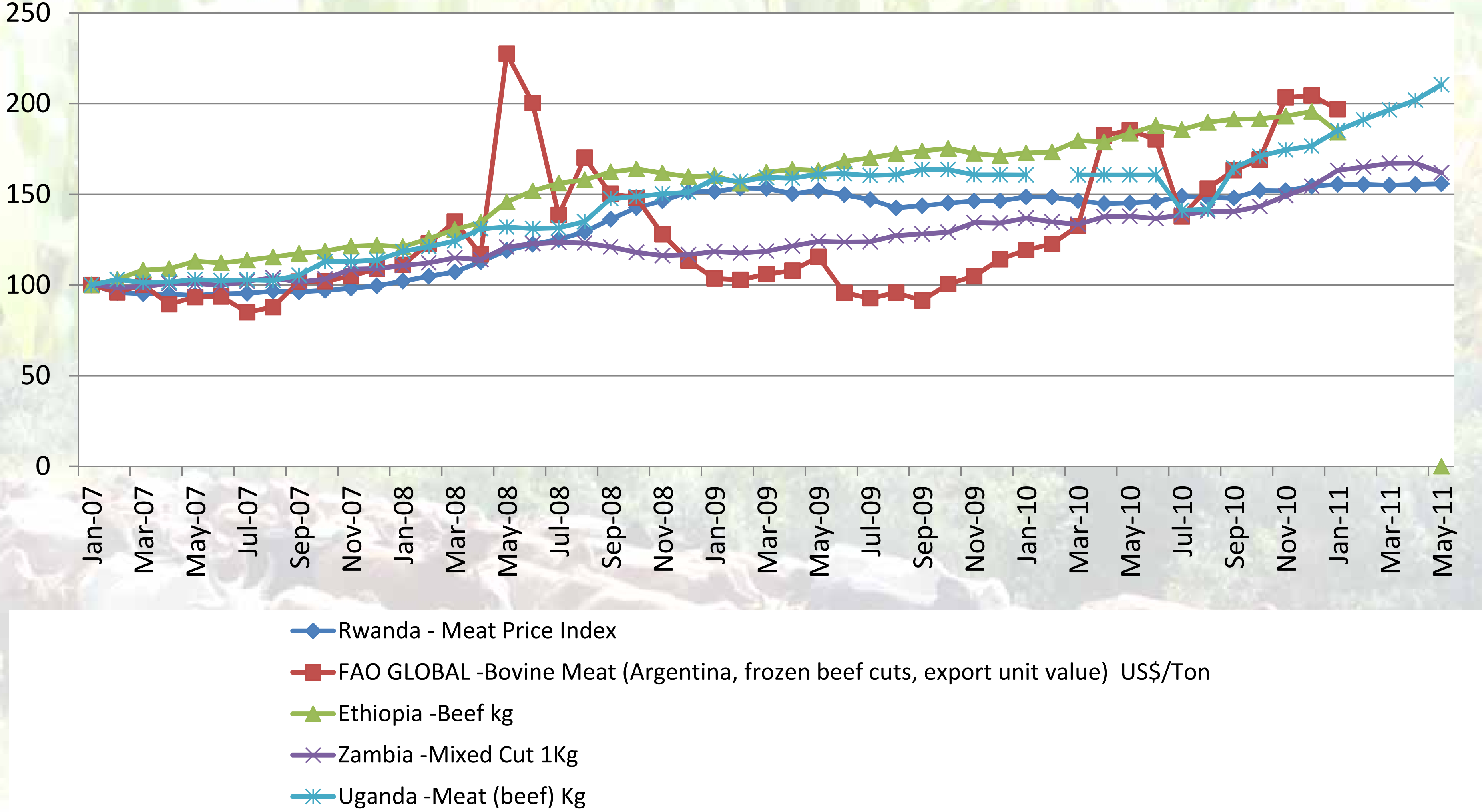
Data Source: a) FAO Commodities and Trade Division; b) Ethiopia: Central Statistical Agency; c) Zambia: Central Statistical Office; d) Kenya: Ministry of Agriculture

Bean Price Indices 2007 = 100



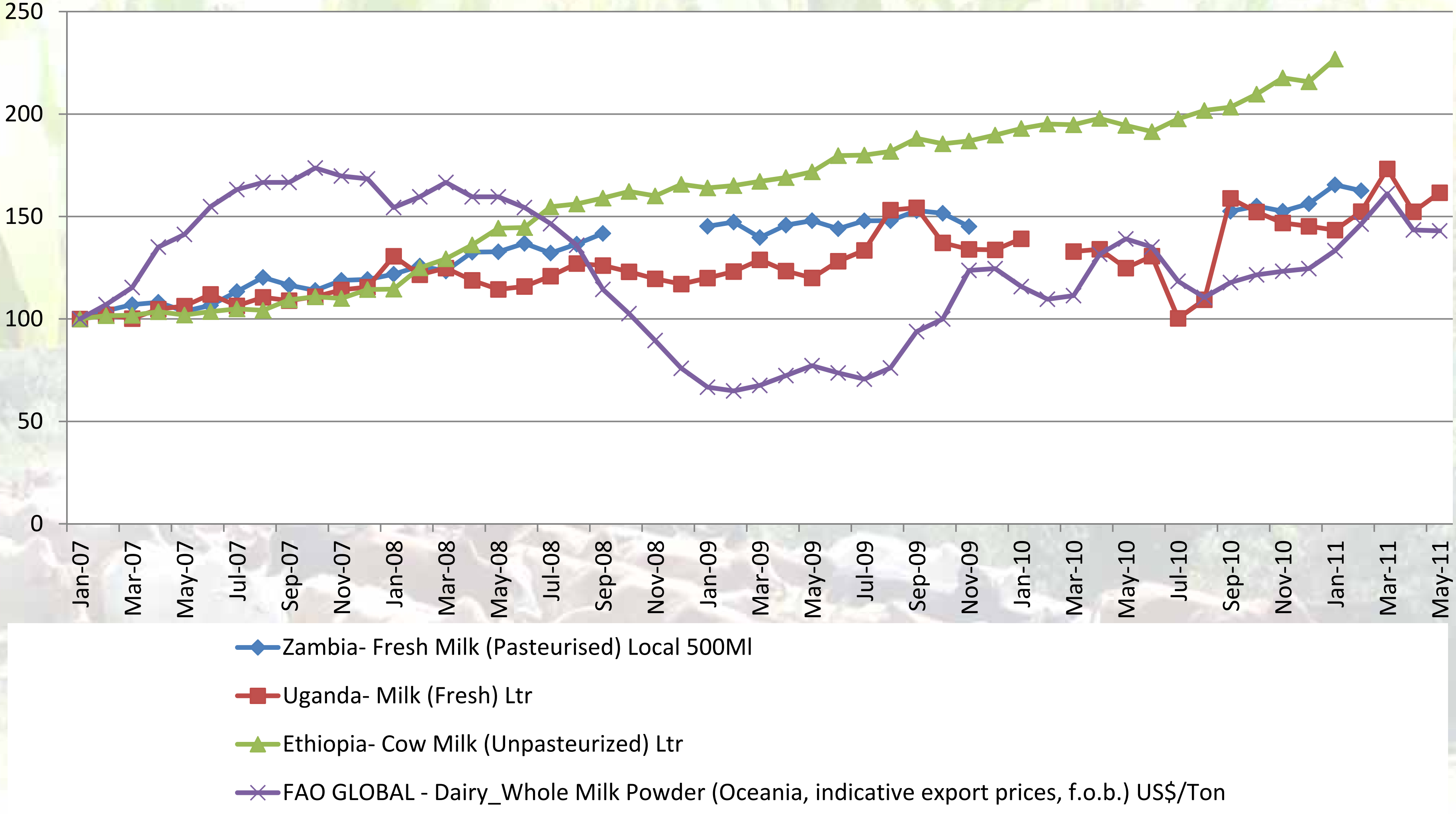
Data Source: a) FAO Commodities and Trade Division; b) Ethiopia: Central Statistical Agency; c) Tanzania: Bank of Tanzania; d)Uganda: Uganda Bureau of Statistics; e)Rwanda: RATIN; f) Zambia: Central Statistical Office (CSO) ; g) Kenya: Ministry of Agriculture

Meat Price Indices 2007=100



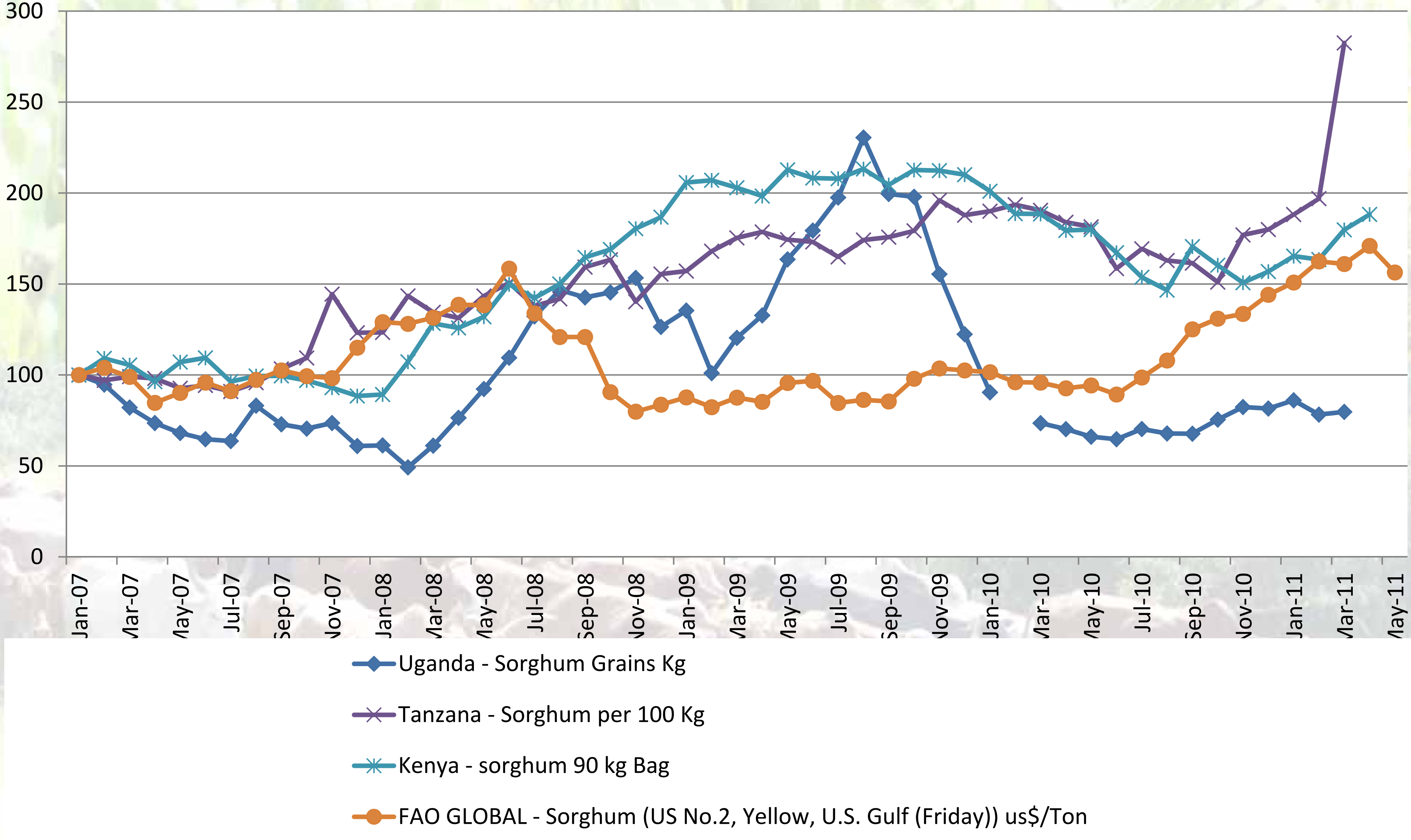
Data Source: a) FAO Commodities and Trade Division; b) Ethiopia: Central Statistical Agency; c) Zambia: Central Statistical Office; d) Rwanda: National Statistical Institute; e) Uganda: Uganda Bureau of Statistics

Milk Price Indices 2007=100



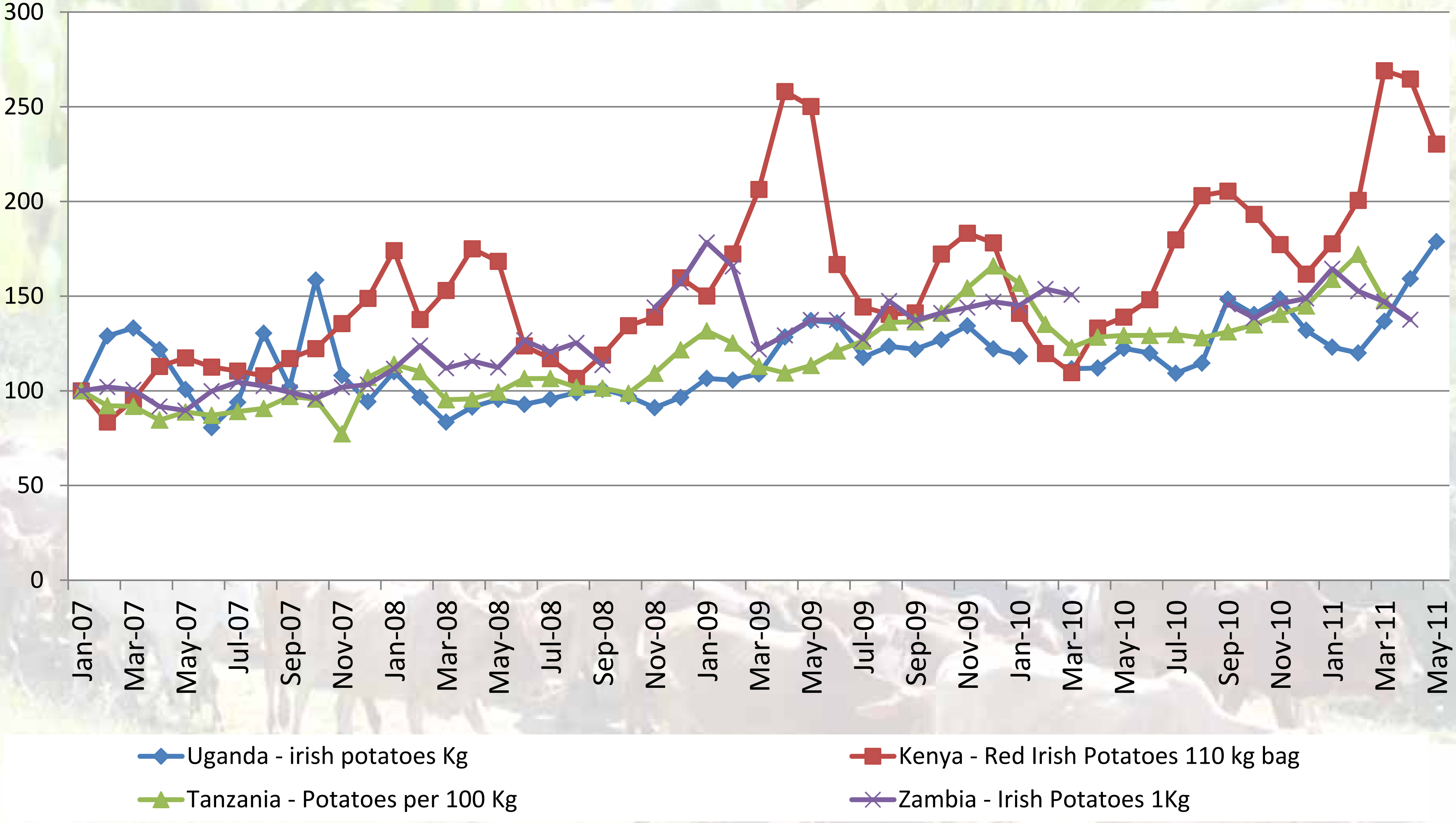
Data Source: a) FAO Commodities and Trade Division; b) Ethiopia: Central Statistical Agency; c) Zambia: Central Statistical Office; d) Uganda: Uganda Bureau of Statistics

Sorghum Price Indices 2007=100



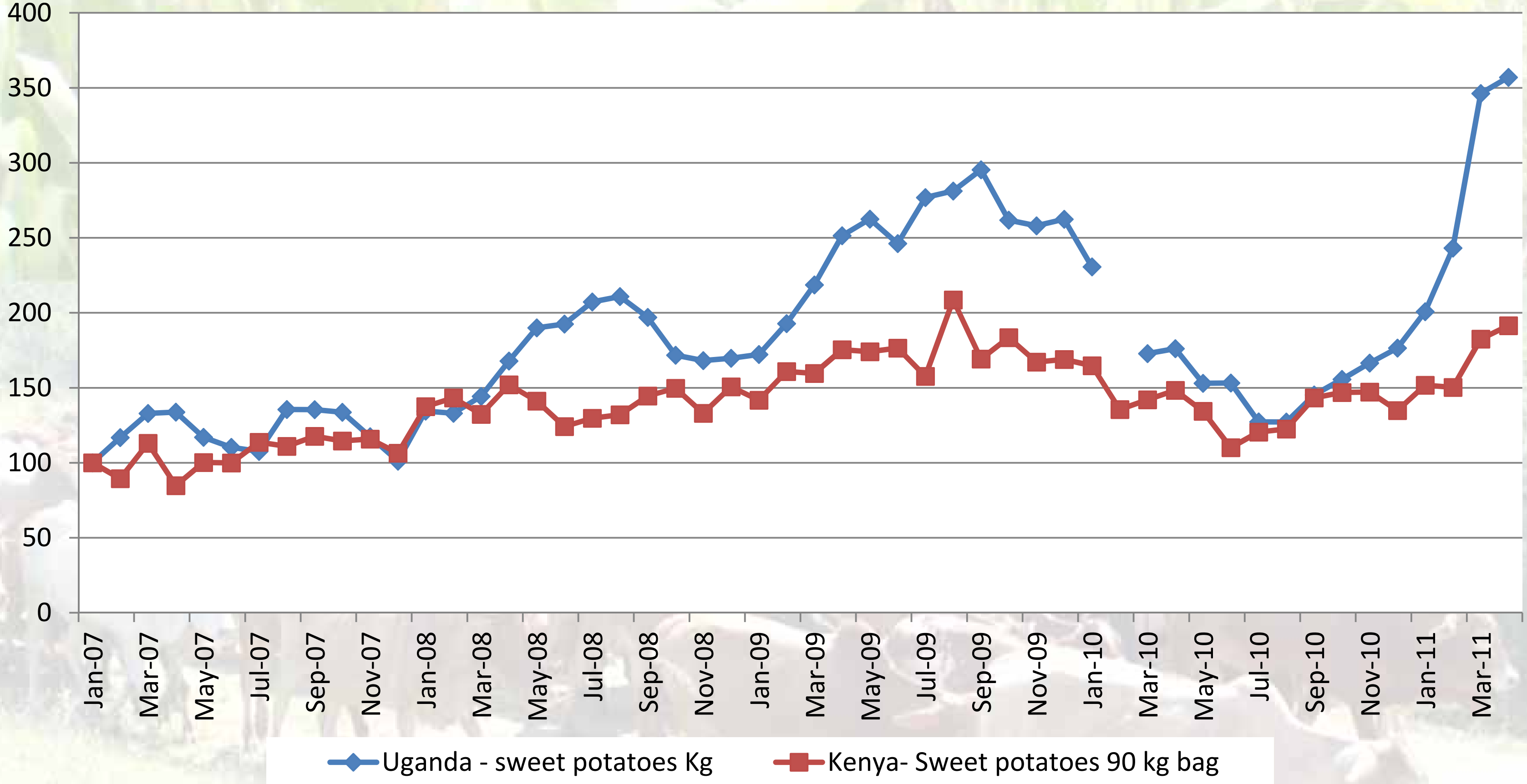
Data Source: a) FAO Commodities and Trade Division; b) Tanzania: Bank of Tanzania; c)Uganda: Uganda Bureau of Statistics; d) Kenya: Ministry of Agriculture

Irish Potatoes Price Indices 2007=100



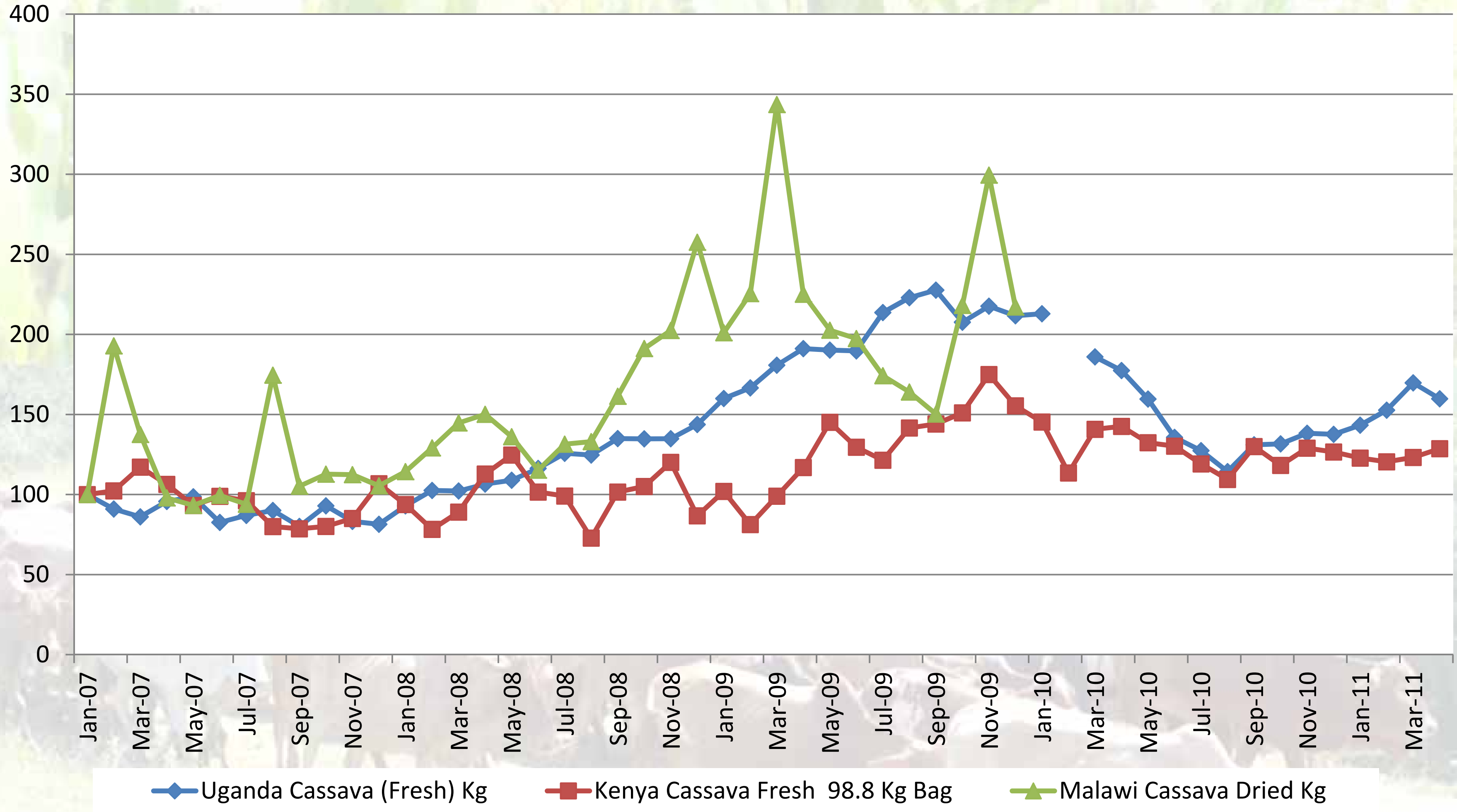
Data Source: a) Tanzania: Bank of Tanzania; b)Uganda: Uganda Bureau of Statistics; c)Zambia: Central Statistical Office (CSO) ; d) Kenya: Ministry of Agriculture

Sweet Potatoes Price Indices 2007=100



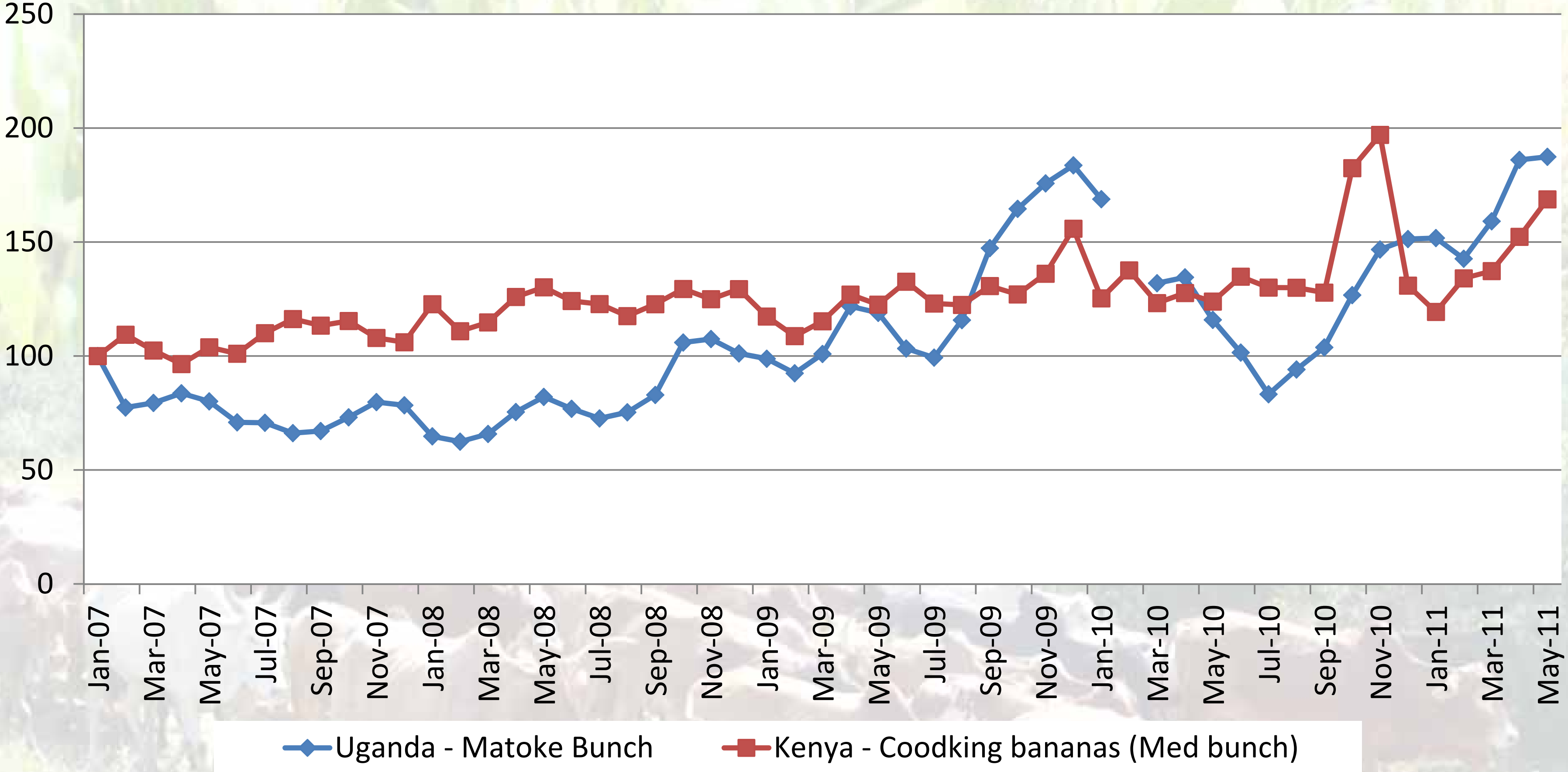
Data Source: a)Uganda: Uganda Bureau of Statistics; b)Kenya: Ministry of Agriculture

Cassava Price Indices 2007=100



Data Source: a)Uganda: Uganda Bureau of Statistics; b)Kenya: Ministry of Agriculture c) Malawi: National statistical office of Malawi

Bananas Price Indices 2007=100



Data Source: a)Uganda: Uganda Bureau of Statistics; b)Kenya: Ministry of Agriculture

Pattern of price changes is mixed

- Severity of the problem differs:
  - ❖across countries
  - ❖across commodities
  - ❖time of the year

Change in food prices

Country	% change FPI Feb 2007-June 2007	% change FPI June 2008-Dec 2008	% change FPI Jan 2009-Dec 2009	% change FPI Jan 2010-Dec 2010	% change in commodity price				
					Staple food	June 2008 -Dec 2008	Jan 2009 -Dec 2009	Jan 2010-Dec 2010	Jan 2011-April 2011
Ethiopia	6.4	-5.6	0.1	8.7	Wheat***	-9.2	-16.5	6.1	-
FAO GLOBAL	12.9	-34.0	21.7	24.1	Maize	-44.2	-3.2	48.4	19.5
Kenya	-1.1	5.6	4.9	7.6	Maize	23.7	1.7	-35.9	66.8
Rwanda	-6.3	12.5	9.0	-7.6	Beans	12.6	23.9	13.3	-2.5
Tanzania	1.0	10.3	9.2	-4.1*	Maize	21.8	20.5	-26.8	23.5**
Uganda	1.5	11.5	20.0	0.2	Bananas	31.6	85.8	-10.3	22.6

* Data available up to June 2010; ** Data up to march 2011; *** Teff is main staple food, data not available

Domestic prices are more volatile than global prices...

Country	Coefficient of Variation % (maize prices)
Kenya	23.55
Uganda	17.30
Ethiopia	3.73
Tanzania	22.07
Rwanda	33.46
Global (US No.2, Yellow, U.S. Gulf)	7.06

Data source: FAOSTAT (Global), Ministry of Agriculture (Kenya), Central statistics agency (Ethiopia), RATIN (Tanzania and Rwanda), UBOS (Uganda).

Minimal transmission of global price changes to domestic markets...

Regional markets	Correlation Coefficients
Nairobi: kenya	-0.15
Kampala: Uganda	0.17
Dar es Salaam: Tanzania	0.14
Addis Ababa: Ethiopia	-0.35
Kigali: Rwanda	0.64

Data Source: RATIN (Kenya, Uganda, Tanzania, Rwanda); Central statistical agency (Ethiopia); FAOSTAT (Global).

Correlation coefficients vary between -1 and 1. The closer to 1, the better the integration between the markets. No global and domestic market integration

Some transmission between markets in the region (maize prices)...

Regional markets	Kampala	Nairobi	Dar es salaam	Kigali	Addis Ababa
Kampala	1	0.69*	0.49*	0.38*	0.72*
Nairobi	0.69*	1	0.41*	0.61*	0
Dar es Salaam	0.49*	0.41*	1	0.55*	0.33
Kigali	0.38*	0.61*	0.55*	1	-0.12
Addis Ababa	0.72*	0	0.33	-0.12	1

Data Source: RATIN (Kenya, Uganda, Tanzania, Rwanda); Central statistical agency (Ethiopia)

*significant at the 5% significance level

+correlation coefficients = maize prices in various markets in EA region tend to move in the same direction, Domestic markets have some degree of integration among themselves, thus price changes will cause flow of food from surplus to deficit areas -exploiting a regional approach

Factors affecting demand for food in EA

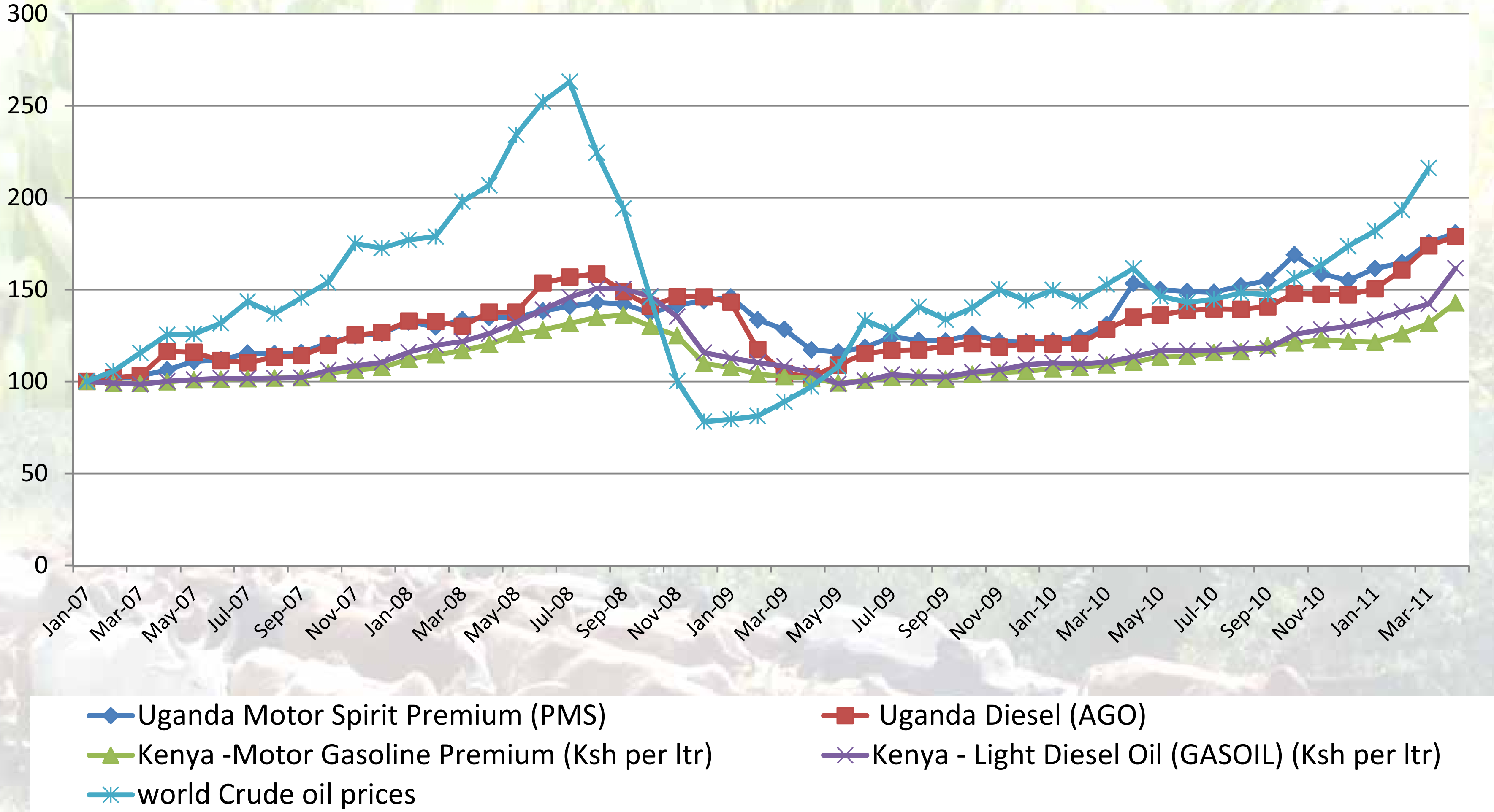
- Population growth, rising incomes (though inequalities in income distribution make the poor very vulnerable), urbanization

- However, demand factors change only slowly and may not be responsible for the recent spikes and volatility

Factors contributing to low supply of food in EA

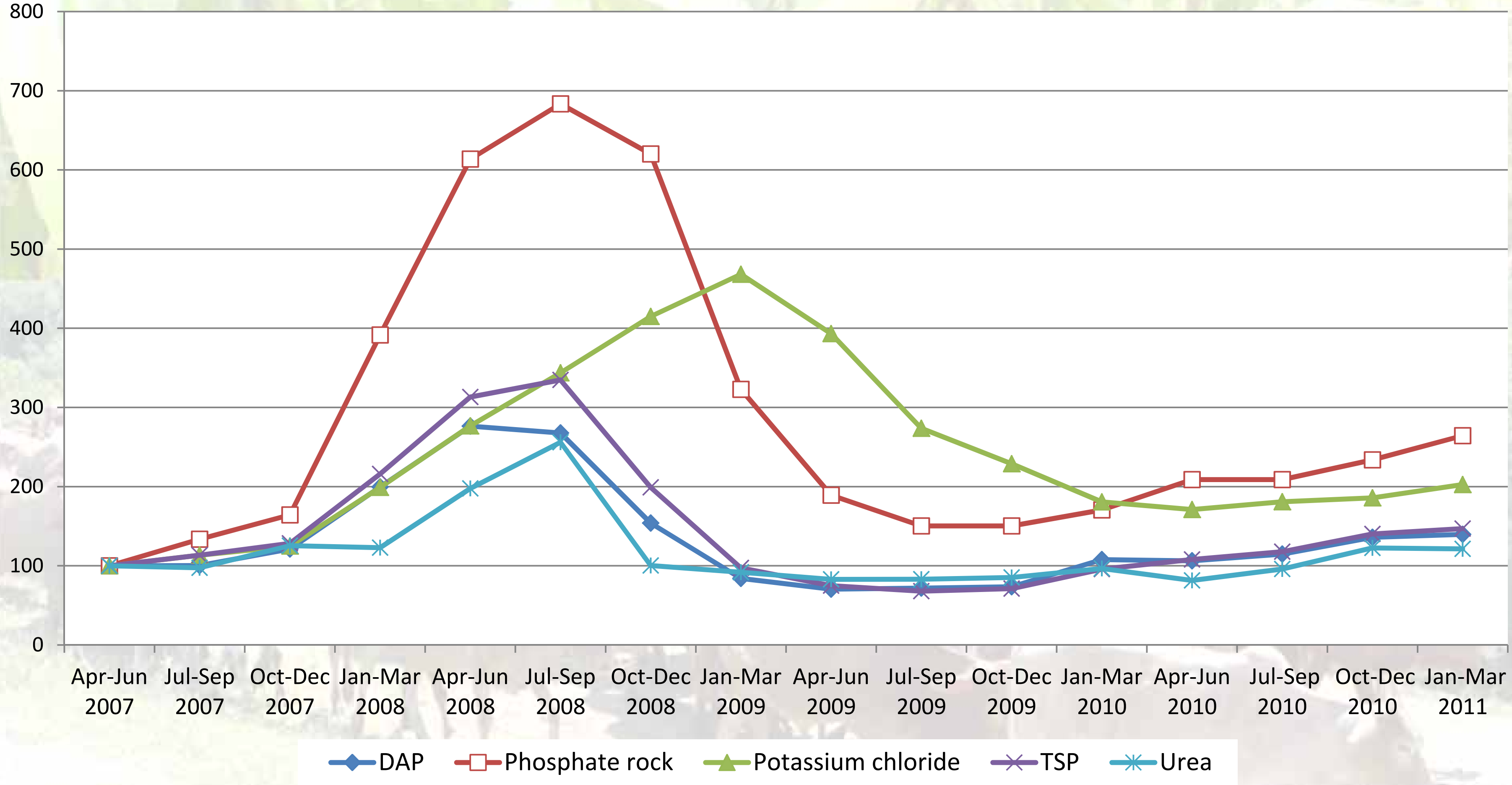
- Low investments in agriculture and rural development
- High prices of inputs – fertilizers, fuel, feed
- Climatic shocks
- Impacts of trade: inefficiencies, expensive imports, policies
- Disruption of supply – conflicts

Fuel Price Indices 2007=100



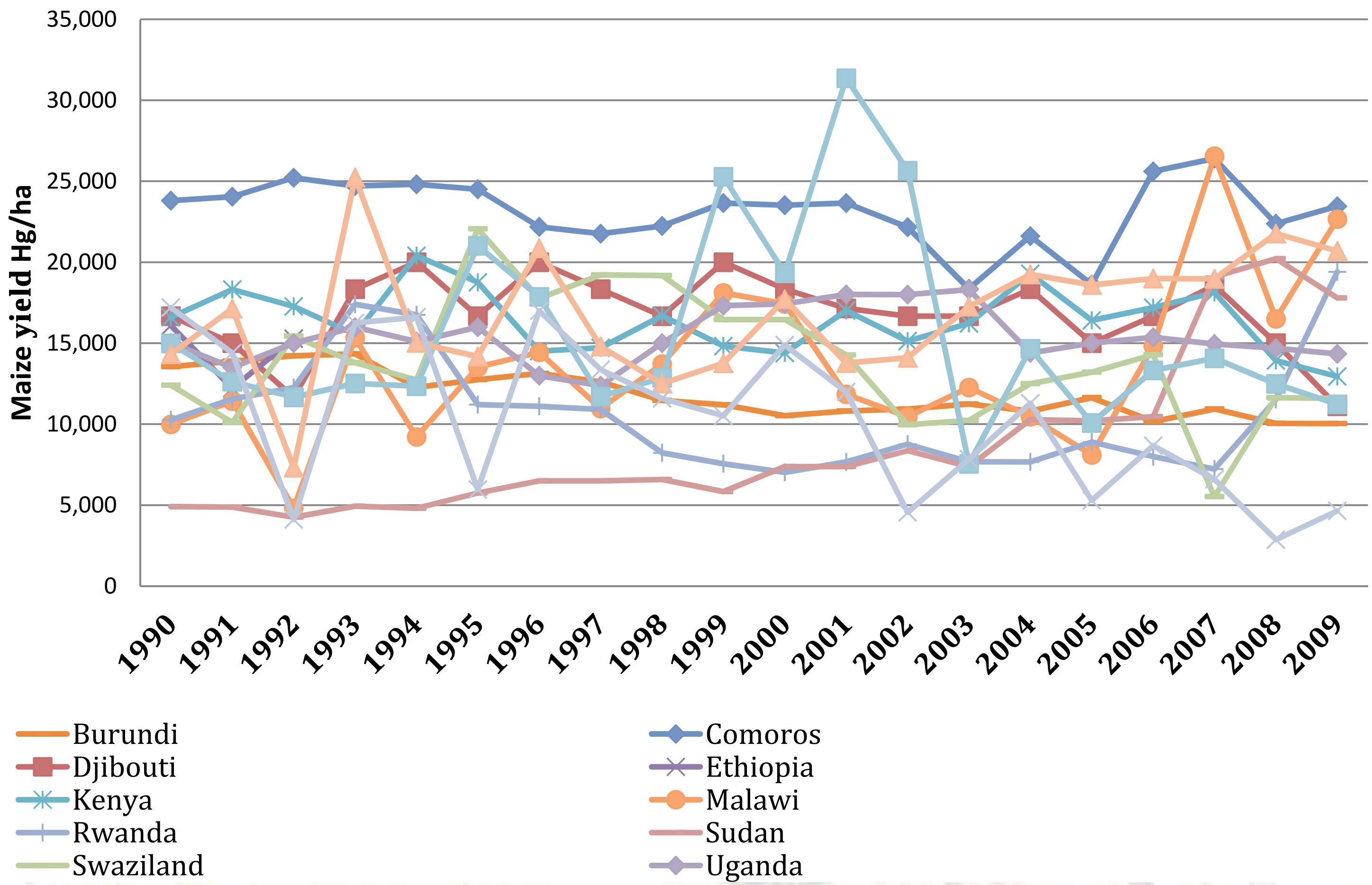
Data Source: a) world: World: US energy information administration independent statistics and analysis; b) Uganda: Bank of Uganda; c) Kenya: Kenya National Bureau of statistics

World Fertilizer Price indices 2007=100



Data Source: World Bank

Yields are low and decreasing or stagnant



Differential impact on households

Poor are hit hardest

What levers to pull?

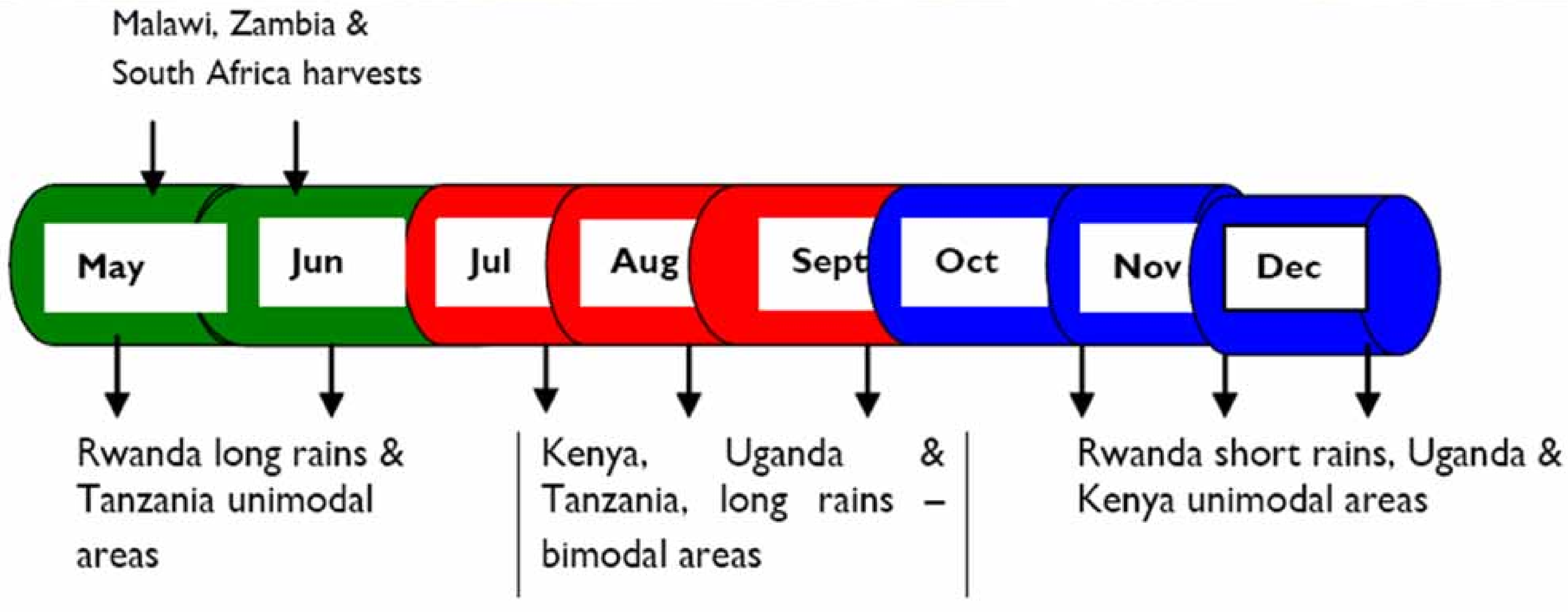
- Increase production?
  - Productivity decline, climatic factors,…
- Control demand?
  - Population growth, income inequalities, ...
- Many slow to respond; >3 years?

Regional approach offers better prospects

- Exploit diversity in the region

Heterogeneity in production

ESA harvesting timeline



Source: Data: FEWSNET,2008

Most action is in domestic and regional markets…

- But, there are serious barriers to trade: wasteful, high transaction costs

Busia -Uganda

Busia -Kenya

On going policy response measures to high food prices in EA region

SAFETY NETS FOR THE VULNERABLE	Food subsidies
	Cash transfer
	Food for work and food for training
	Food ration/stamp; vouchers
	School feeding
FOOD SUPPLY AND FOOD TRADE	Increase supply using food grain stocks
	Increase supply via imports
	Reduce taxes on food
	Price controls/consumer subsidies
	Reduction of tariffs and custom fees on food imports
	Restricted or banned export
AGRICULTURAL PRODUCTION	Agricultural input subsidies, mostly fertilizer and seeds
	Increase administered prices for producers
	Incentives for expanding production (credit)
	Lower import tariffs for inputs e.g. fertilizer

	Consistent with longer run policies to improve food security
	Some concerns relating to longer run food security
	Likely to create problems for longer run food security depending on duration and targeting
	Highly likely to create problems for longer run food security and/or create serious problems for neighbouring countries

Sources; World Bank, 2008; FAO, 2008; Karugia et al, 2009; Okello, J.J, 2009; www.wfp.org; www.fao.org

Despite the various policy actions adopted in EA region to curb rising food prices, the region has continued to experience persistent high and volatile food prices

Conclusions

- Changes in global food prices are not transmitted to domestic markets
- Regional response offers opportunities to address the food price crisis
- Food price crisis offers opportunities for agricultural development through increased domestic production, regional trade and integration [Paul Romer: "A crisis is a terrible thing to waste"]

Recommended Policy Options

Protect the vulnerable

- Priority Actions
  - Targeted food subsidies and cash transfers where markets are working
  - Targeted food aid where markets are not working
  - Reduce taxes on food grains
  - Design and targeting –key to success

- For rural poor, in addition provide production support – inputs, credit, technologies

Exploit regional diversity and facilitate regional trade

- Priority Actions
    - Remove export bans
    - Eliminate NTBs
    - Simplify trade
    - Upgrade, maintain infrastructure and facilities on the main trade corridors

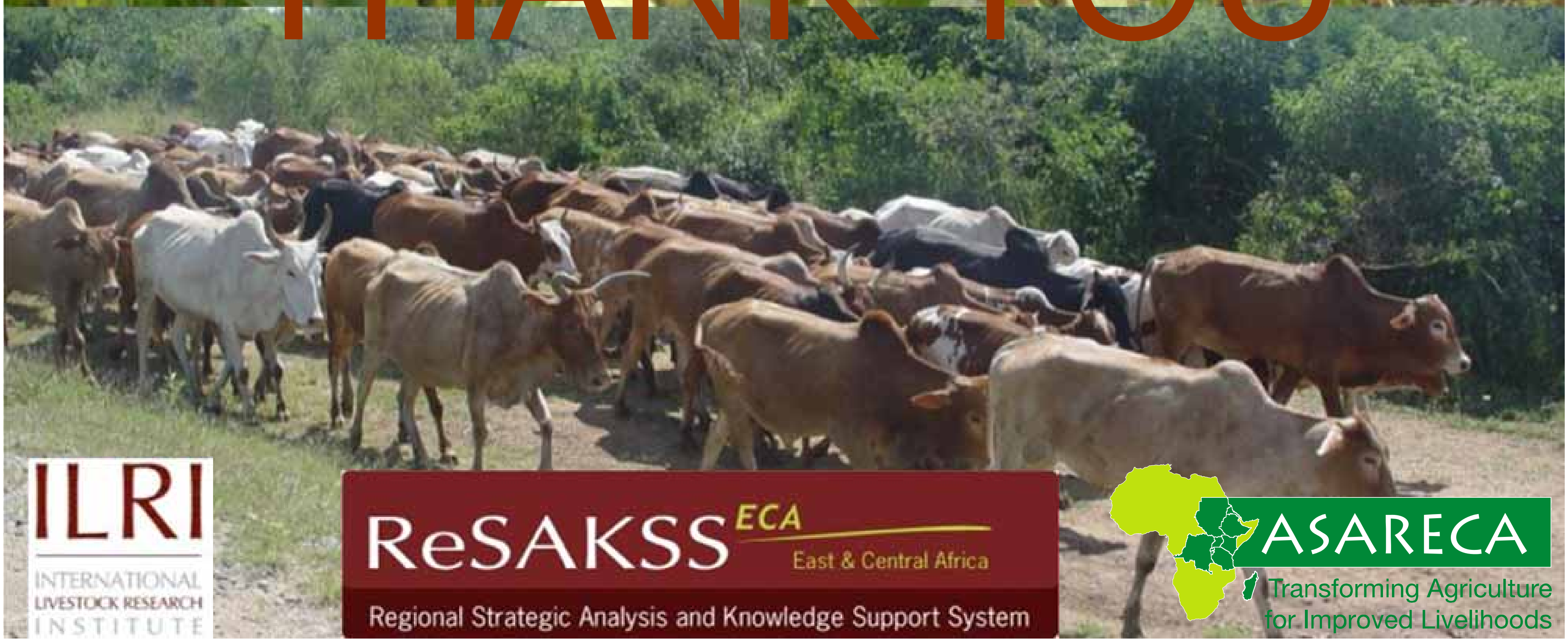
Enhance supply response

- Priority Actions
  - Make agricultural inputs affordable
  - Build on best bet technologies
  - Exploit economies of scale in input procurement and facilitate trade in inputs
  - Pilot innovative risk management strategies – warehouse receipt system, index based insurance systems

Strengthen and use regional institutions for preparedness and response

- Priority Actions:
  - Strengthen market information & intelligence (e.g. RATIN,FEWSNET, EAGC)
  - Institutional frameworks for preparedness, response, and learning

THANK YOU



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