

Agricultural and Food Price Volatility

African views and perspectives

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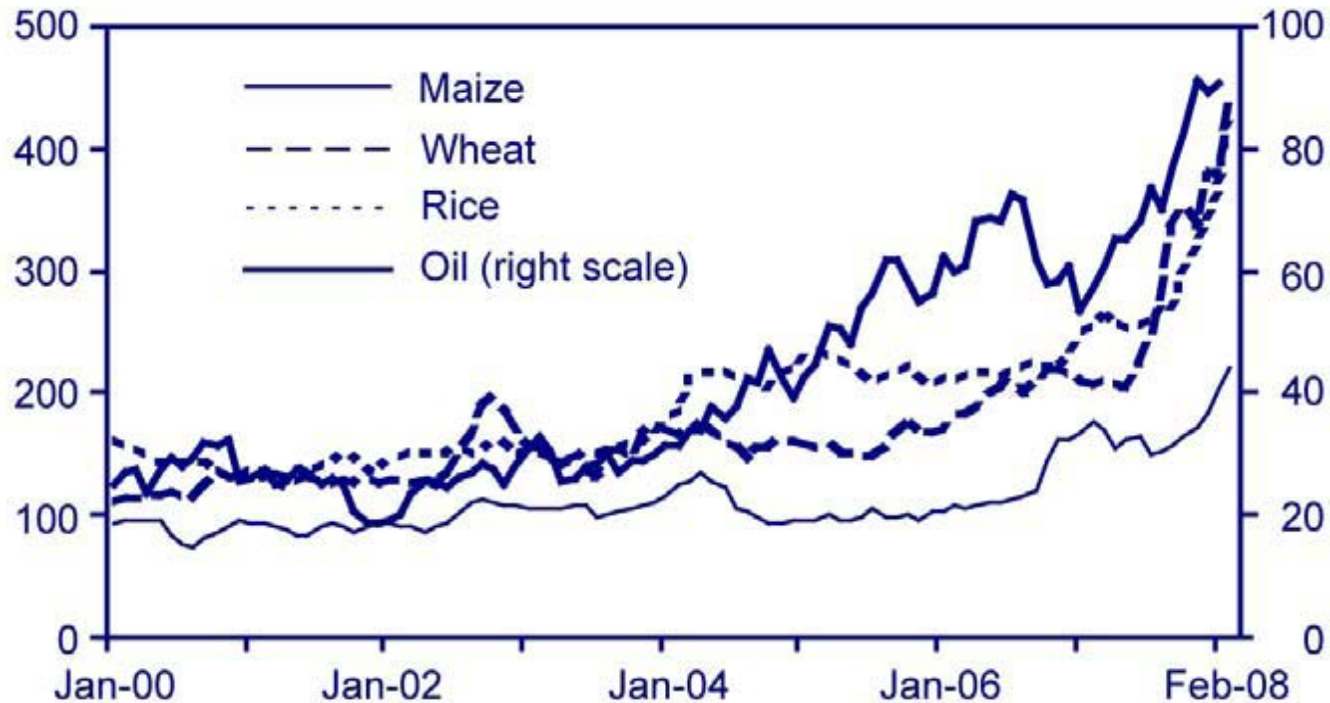
Agricultural and Food Price Volatility: Impacts and Interventions in Africa

**African Economic Research Consortium
(AERC)**

Outline

- Global Trends in Food Price Volatility
- Causes of Food Price Volatility in SSA
- Impacts of food price Volatility in SSA
- SSA Governments Reactions to food price Volatility
- Possible Prescriptions

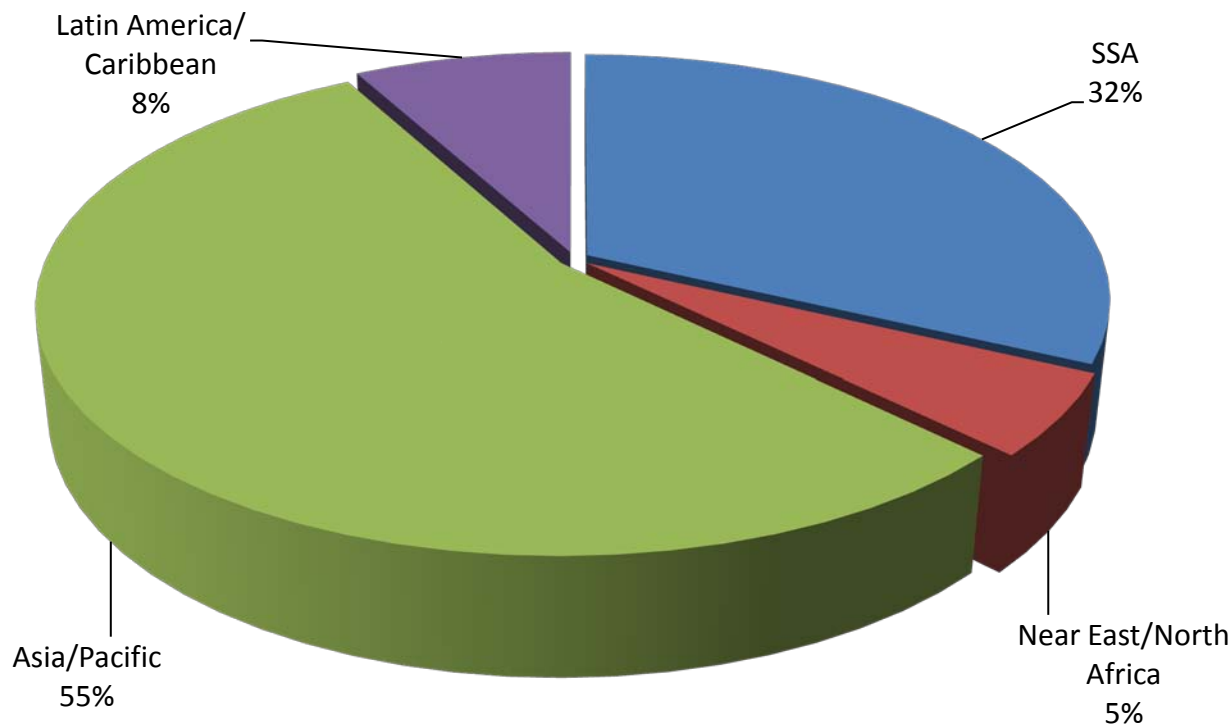
1. Global Trends in Food Prices



Continuers Rise 2000-2008 (Source IMF, 2007 In Akello Ogutu

The Rise in food Prices, particularly Cereals has been increasing by a bout 20% annually and the trend tends to be steeper every year

Additional Undernourished between 2003-05 & 2007 due to high food Prices



| Region | Million People |
|-----------------------------|----------------|
| SSA | 24 |
| Near East/ North Africa | 4 |
| Asia/Pacific | 41 |
| Latin America/ Caribbean | 6 |

SSA and Asia bore the greatest Impact (87% of hungry people) due to high food prices (Source: FAO)

Meeting MDG 1

Progress toward MDG 1 target on hunger in the developing world has reduced from 20% in 1990-92 to less than 18% in 1995-97 and just above 16% in 2003-05, 2007 , implying that meeting hunger-reduction goals by 2015 is becoming a great challenge with persistent rise in food prices.

2. Causes of Food Price Volatility in SSA

- **Energy Crisis and lagging internal investment in energy:**
Increases in fuel oil prices (SSA)
- **Global climate change** that also transmit supply crisis to SSA
- **Shocks due to economic recession**, particularly the Global financial crisis of 2007/2008
- **limited-impact programmes** that depend on donor financing, with limited sustainability
- **Limited investments** in agricultural land and related infras
- **Poor market access** for smallholder farmers
- **Poor support for agriculture** and general attention shift from agriculture as a development driver
- **Global governance in Trade:** challenges within the GATT/WTO regulations creating trade imbalances & constrained returns to GVTs

World Market Price Transmission to Africa

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- SRAI project (Strengthening Regional Agriculture Integration) show that 33% of price increases on rice and wheat in West Africa are transmitted from international markets (Regional Conference held in Burkina Faso, on April 4-6, 2011)
- (Minott, 2010) also point at linkages between local and Global food prices, particularly Malawi, Mozambique and Ethiopia

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3. Impacts of food price Volatility in SSA

- Production Impacts
 - positive signals for net export farmers in the short run
 - incentive to farmers to increase production
- social impacts (von Grebmer *et al* 2008)
 - negative impact to net importers such as (Angola, Chad, Burundi, Ethiopia)
 - negative impacts in countries with high rates of hunger who have to depend on buying food
(Burundi, DRC, Ethiopia, Liberia, Niger, Sierra Leone)

social impacts continues.....

- Poverty: Severe rise in food prices pushes the already poor consumers deeper into poverty
- On the other hand, high food prices could reduce poverty among farmers (as producers) and farm workers in the long term, as they generate additional income

4. SSA Governments Reactions to Food Price Volatility

| Policy Range | Policy Action | Implementing Countries | Challenges |
|--------------|---|---|--|
| Short-term | Cash for work | Burundi, Eritrea, Kenya, Malawi, Zimbabwe | High fiscal costs |
| | Food for work | Burundi, Egypt, Eritrea, Kenya, Libya | Significant leakages in food |
| | Emergency food aid | Burundi, Kenya, Libya, Tanzania | significant leakages in food |
| | School Feeding | Burundi, Egypt, Kenya, Libya, Zimbabwe | Fails to address malnutrition in infancy |
| Medium term | Reduction in tariffs & VAT on staple food | Burundi, Djibouti, Kenya, Ethiopia, Madagascar, Sudan, Tanzania, Zambia | Reduction in revenues |
| | Consumer price subsidies & ration cards | DRC, Eritrea, Mauritius, Rwanda, Zimbabwe | High fiscal costs |
| | Bans or taxes on grain exports | Egypt, Ethiopia, Kenya, TZ | sharp price fluctuations for importers |
| | Grain buffer stock | Ethiopia, Ken, Sudan, Tanzania, Zambia | High fiscal costs |
| Long term | Investment in R&D, infrastructure | | |

Possible Initiatives

- Engaging farmers through the higher levels of the value chains to stimulate production eg. AERC/WFP currently engaged on P4P to stimulate smallholder productivity and links to market
- Investment in Agriculture/Rural infrastructure
- Input Subsidies:** This have been successful in Malawi following Zimbabwe's successes in the 1980s
- Index Insurance against** climate change effects: Trials have been successful in Kenya with Syngenta Foundation
- Innovative Micro-credit to farmers: Mobilizing innovative Micro-finance

Possible Social Initiatives

- Governments buying surplus as buffer stock at competitive prices
- International aid directed to agriculture in the form of inputs
- Food for work programme targeted to the poor working in agriculture
- Behavior change towards traditional foods (Sorghum, millet, yams, Cassava, local vegetables)

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Merci

Ngiyabonga Kakhulu

Asante Sana

Thank you

