Risk Management in African Agriculture:
Price policies in Ethiopia

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Outline

- Policy evolution
  - Broad overview
  - Market reforms in the 1990s
- Challenges of reforms since 1999
  - 2001-02 price collapse and drought
  - 2007-09 price hikes
  - An update on recent policy thinking
- Key lessons

Policy evolution: broad overview

Policy Regime	Major Policy Objective(s)	Key Observations
Imperial Regime (1951-74)	Revenue generation; provide supports to large land owners	Limited direct interventions; promote exports; no significant price stabilization
Socialist Regime	Socialization of all aspects of production and marketing	Heavy government intervention which depressed the development of private grain trade
The Current Regime	Price stabilization, promote private sector grain trade	Good intentions but mixed signals due to *ad hoc* policy interventions

Market reforms in 1990s (1)

- Participatory Demonstration and Training Extension systems (PADETS) introduced in mid-1990s
- Production grew and Ethiopia exported 44,000 tons of maize in 1997.
  - Government's confidence on markets grew
- More reforms followed until price stabilization was taken out of EGTE's mandates
- More emphasis were placed on emergency responses and strategic reserves

Market reforms in the 1990s (2)

Proc./Reg. No.	Agency Responsible	Remark*
Regulation No. 104/1992	**Ethiopian Grain Trade (EGTE)**	Reform AAMC; multiple crops agencies to a single agency (EGTE) accountable to the ministry of trade. *Price stabilization is one of the key mandates for the EGTE.*
Proclamation No. 58/1999	**Ethiopian Grain Trade (EGTE)**	EGTE gets control over more commodities. It was amalgamated with the Ethiopian Oil Seeds and Pulses Export corporation. *Price stabilization remains one of several mandates*.
Regulations No. 67/2000	**Emergency Food Security Reserve Administration (EFSRA)**	*Does not mention price stabilization explicitly.* EGTE plays supporting roles in the implementation of disaster prevention / mitigation policies.
Proclamation No. 212/2001	**National Disaster Prevention and Preparedness Fund Establishment**	*Does not mention price stabilization explicitly.* Designed to address disaster-related income shocks and consumption smoothing. Strategic reserves re-emphasized

Market reforms in the 1990s (3)

- EGTE continued to exist, but it didn't have the mandate to:
  - Stabilize food prices.
  - Enforce floor and ceiling prices.
  - Have significant market presence.
- Food security programs becomes more comprehensive:
  - More focus on emergency responses and strategic grain reserves:
  - Various measures taken to streamline the emergency risk management.

Challenges during reforms: The year 2002-03

- Ethiopia enjoyed two consecutive years of good harvests in 2001 and 2002.
  - But the blessings of mother nature did not translate into improvement in poor households' well-being. Market crashed—so much so the farmers allegedly did not find it worthwhile harvesting their maize crops.
  - Since EGTE no longer had the mandate of price stabilization, it neither have resources nor the GoE guidelines to intervene.
  - Following a cabinet level meeting, EGTE was asked to buy from the farmers at ETB 700 per ton.
  - EGTE bought 18,000 tons in less than a months; and exported about 15, 000 tons of maize that year.

Challenges during reforms: The year 2002-03 (2)

- Situation took turn for the worst in 2002
  - Rain doesn't come on time for the *meher* season of 2002; and farmers reduced fertilizer use by 22 percent due to market crash in the previous year.
  - Production forecasts was revised downward by 52 percent
  - GoE and its development partners became nervous about a looming food security crisis, with potentials of 15 million people facing starvation!
  - The crisis was eventually averted with generous donor support that included more than one million tons of food aid.

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Causes of 2002-03 crisis

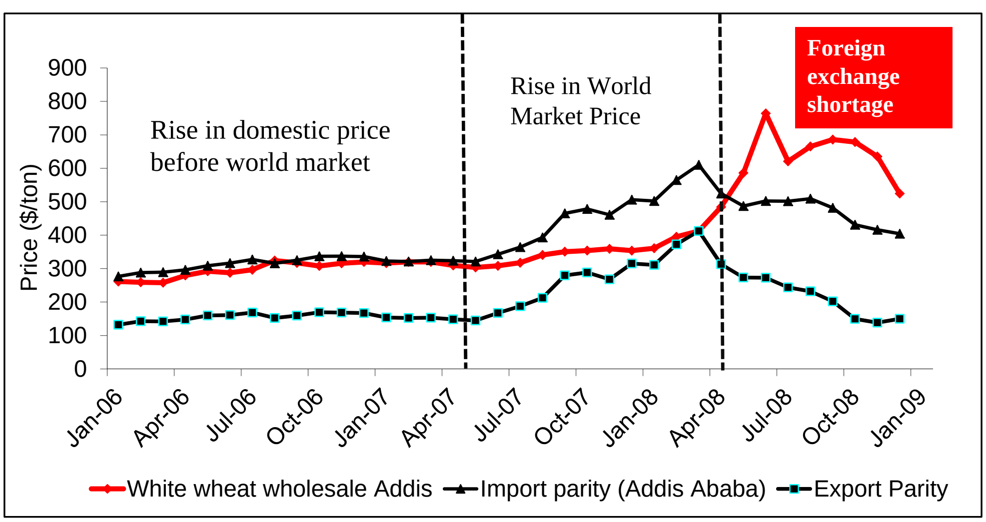
- The cause of the crisis was not Market Reform, it's a combination of factors:
  - Policy design problem: if EGTE's mandates were clear, much of the early damage of the market collapse could have been avoided
  - Crop forecast and market information problem: Jumping to export maize was premature. This wouldn't have happened had forecast and market info were good.
  - Input supply problem: drastic decline in fertilizer application would not have happened, if supply system was good and credit were provided

Challenges during reforms: The year 2007-09 (1)

- Despite consecutive years of good harvests, food prices started rising sharply since late 2006:
  - According to official stats, grain production jumped to 18 million tons.
  - While 9.0 million tons production in 2002 caused a market crash, growth to 18 million tons resulted in price hikes!
  - It was a puzzling situation!

Challenges during reforms: The year 2007-09 (1)

Was market reforms to be blamed?



Reform challenges and strategic reserves

- Strategic reserves, along with social safety nets played important roles in 2002 and 2007-09 crisis.
  - Things would have turned into much larger crisis had not have strategic reserves
  - Strategic reserve was depleted to only 17, 000 tons in 2008 from a target level of 407 thousand tons
  - Productive safety net program, launched in 2005, also played important role protecting vulnerable during food crisis.

Recent changes / ongoing discussion

- Large scale GoE imports in 2008/09 to:
  - Re-introduce urban food rationing
  - Open market sales in 2008, but suspended
  - At cost distribution through millers
- The productive safety net program (PSNP)—largest of its kind in Africa—is scaled up
- Review underway to increase strategic grain reserves from 430 thousand tons to roughly a million tons.
  - However, studies suggest that increasing stock will have significant negative effects on market.

Key lessons

- Three key lessons can be learnt from Ethiopian experiences:
  - Agricultural risks management should beyond price control through market interventions
  - Potential consequences of government withdrawal need to be thought through (2002 crisis is an example).
  - Developing market fundaments (build roads, providing info, etc) along with social protection and emergency response can better manage agricultural risks!.

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