

# Addressing Problems of Price Instability in Staple Food Value Chains



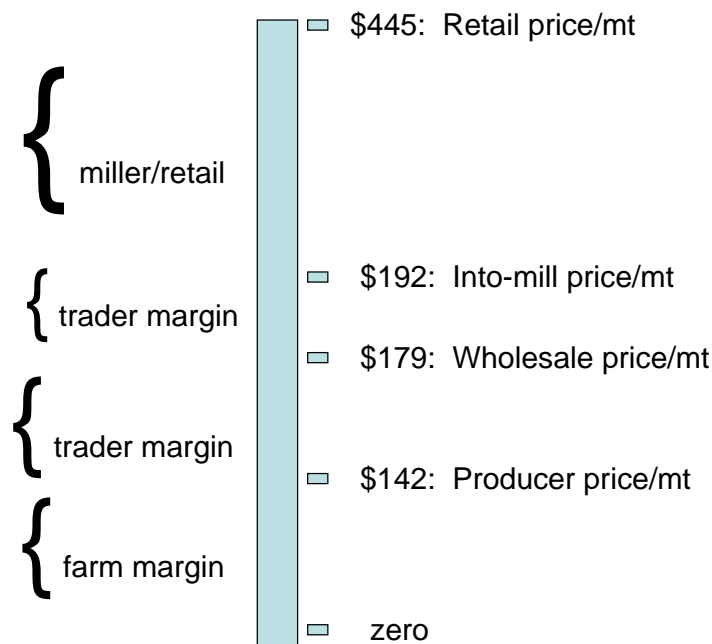
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TCI Seminar, FAO Headquarters  
July 19, 2007

## Major challenge:

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

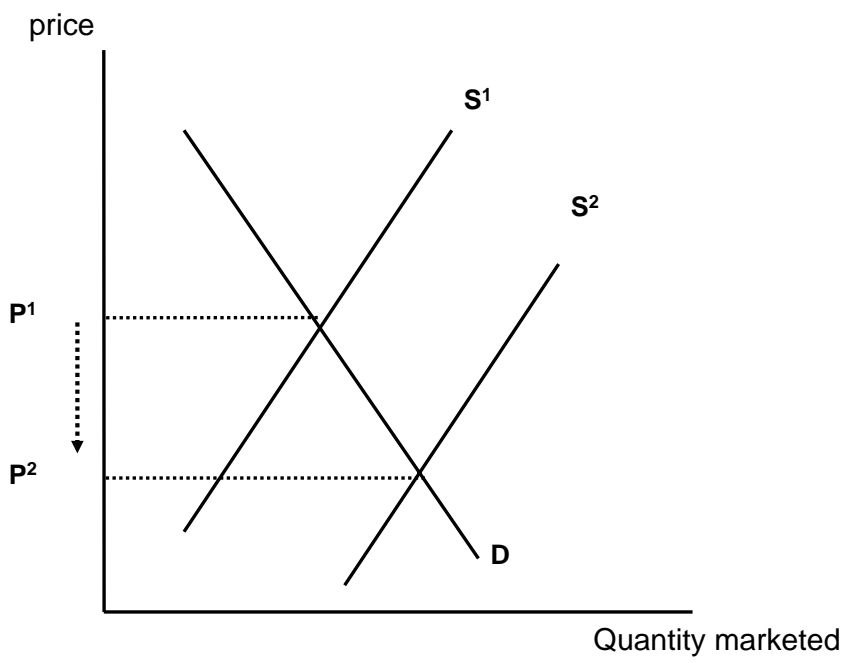
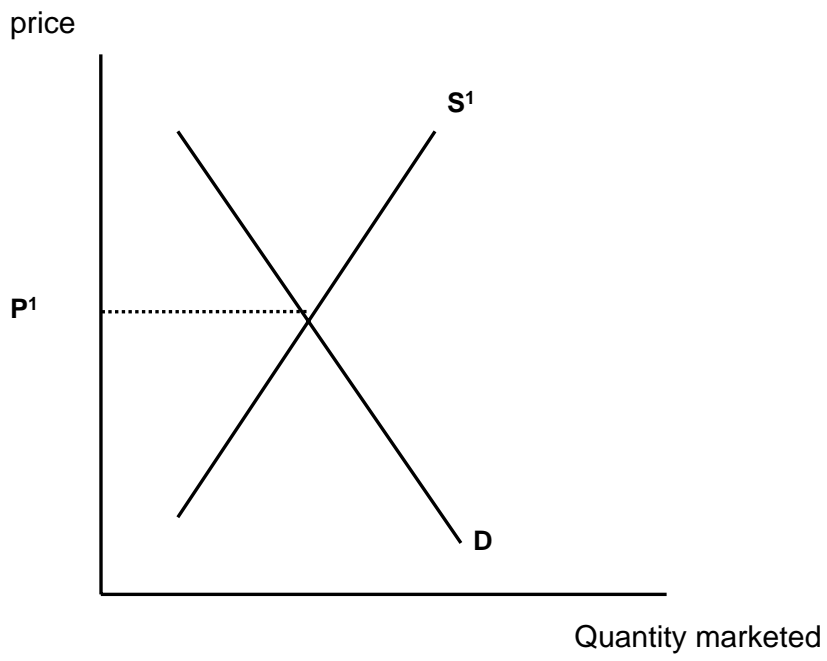
# Interdependence in the value chain



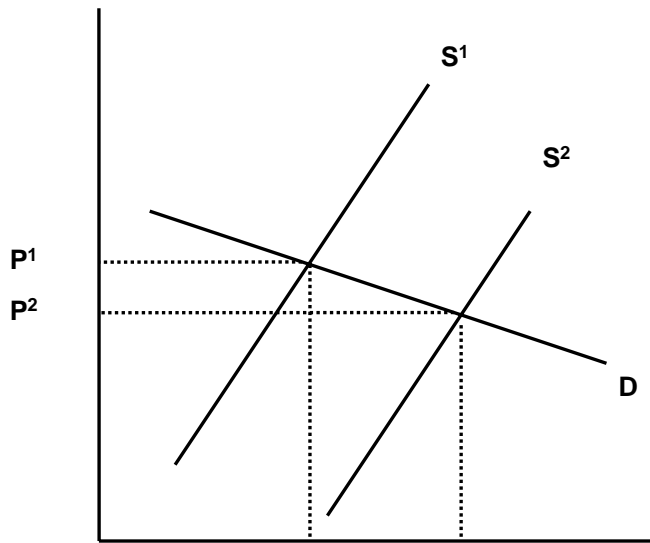
## Main problem:

- 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



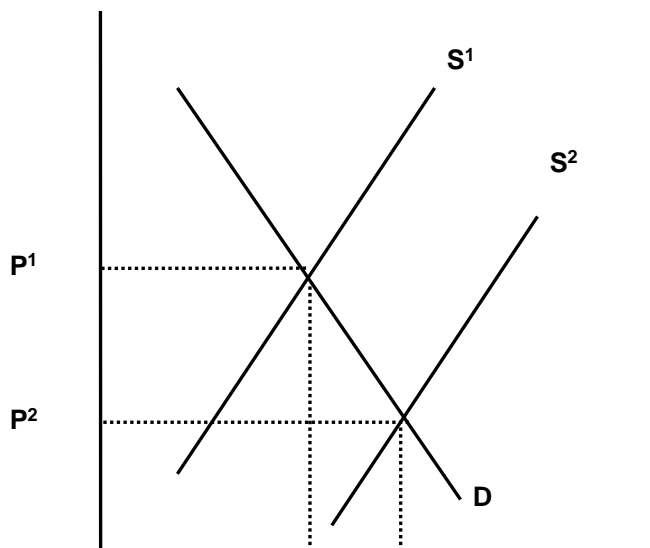
*Slope of demand curve influenced by:*



- 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)

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## 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?

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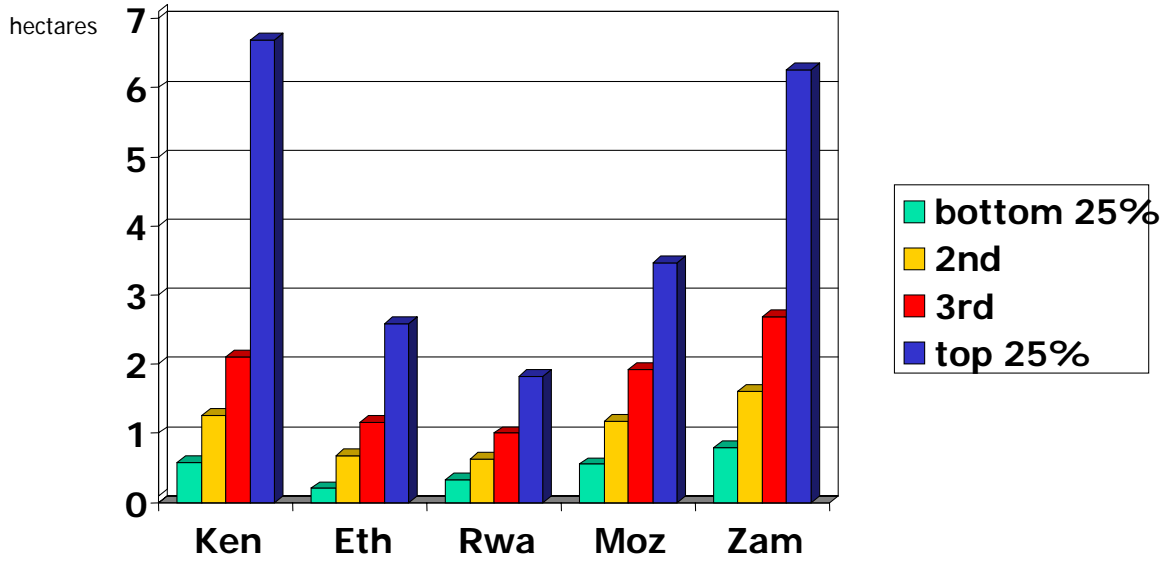
- Bio-fuels: grain markets becoming integrated with petrol markets
- China most likely becoming a major importer

# Who will benefit from higher food prices?

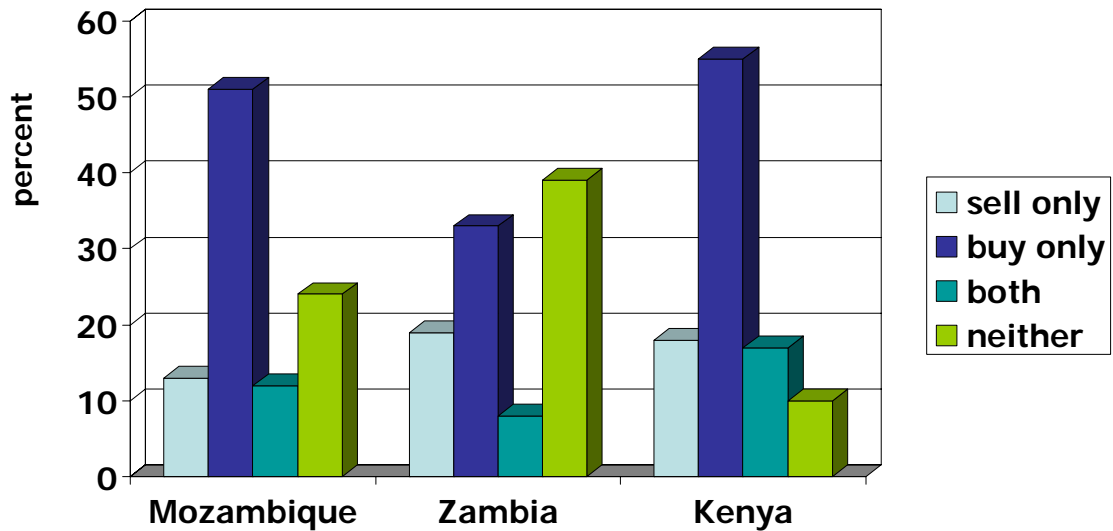
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- Depends on supply response
- Supply response depends on assets and land
- Recall smallholder landholding patterns

## Farm size distribution: Small farm sector



## Smallholder Households' Position in the Maize Market



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- 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

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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)

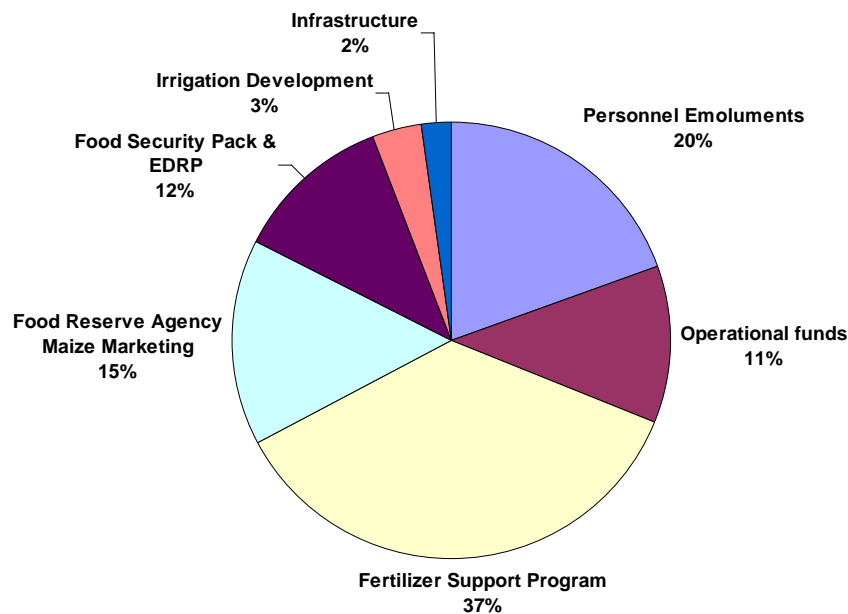


# Priorities for Program Design

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- 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?

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- 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.)

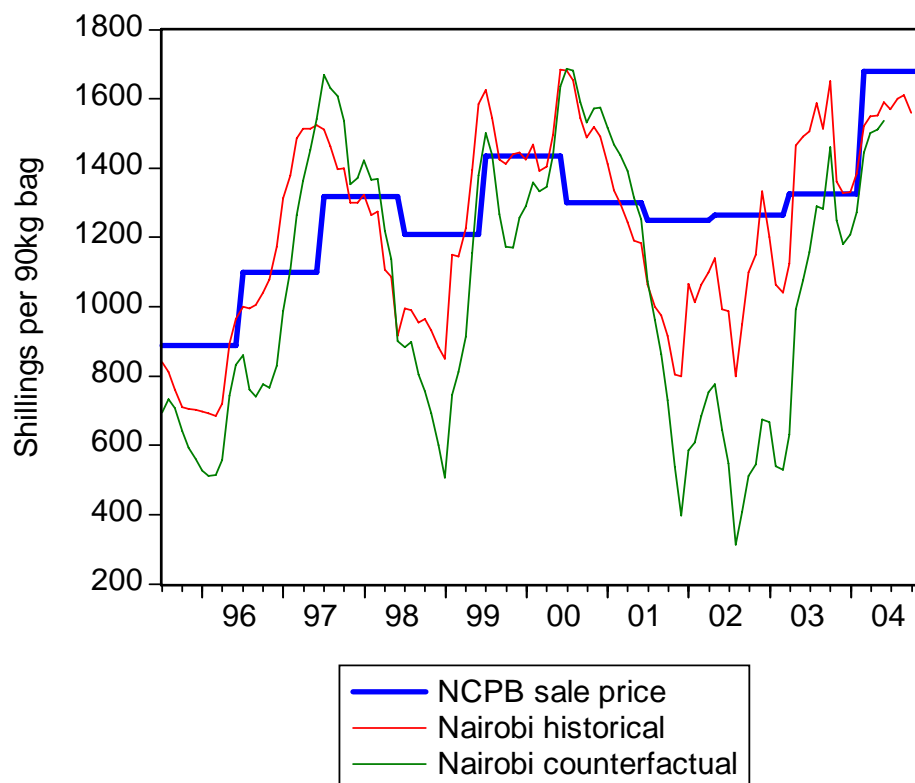
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- Lobby forcefully for more level playing field in international trade
  - OECD support for Africa: \$50 bill./yr
  - OECD ag. subsidies: \$350 bill./yr
  - Reassess developed country policy of dumping free food in Africa under guise of “food for development”



thank you

NCPB and Nairobi market prices, 1995-2005, Kenya



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