POLICY AND PRICE STABILITY: EVIDENCE FROM SOUTHERN AND EASTERN AFRICA

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Symposium on Making Maize Markets Work For All Malawians
Bingu International Conference Centre
Lilongwe, Malawi, October 1, 2015
Food Price Dilemma

A never ending Government struggle!!!

Farmers lobby for higher maize prices + lower fertilizer prices

Floor Prices above market price at harvest time

Lower consumer prices, usually culminating into consumer subsidies

Treasury
Food Price Dilemma

- Good intentions by government have had negative effects on the maize market:
  - Zambia: Food Reserve Agency market participation has been increasing over time
    - Buying beyond budgeted target
    - Delayed payments
    - Government ad hoc policies reducing private sector participation
  - High mealie meal prices despite bumper harvests
Political economy of public resource allocation

Government budget

- Long-term productive investments: R&D, infrastructure, education, etc.
  - High social payoffs
  - But payoffs come 5-20 years later
  - Critical for sustained poverty reduction

- Input subsidy programs
  - Marketing board price supports

- Immediate political payoffs;
  - Visible support to constituencies
  - Contribution to sustained growth / poverty reduction is unclear
Motivation

- Food production fluctuations lead to price instability

- Food price instability is a major problem
  - For farmers
  - For consumers
  - For governments

- In response to food price instability, some governments implement “ad hoc” policies to control trade flows and/or price levels
Discretionary ("ad hoc") trade policies

- If government actions in markets are unpredictable, this tends to deter private sector from participating in the market

- Examples:
  - timing of export/import bans
    - timing of change in import tariff rates
    - when, where and at what price will marketing boards enter the market?
    - when will the Board stop buying, and what will the price be after that?
Questions motivating our study

1. Do trade restrictions help to keep grain prices within reasonable bounds for consumers and producers?

2. Can trade restrictions support medium-term objectives of increased grain productivity, agricultural-led poverty reduction, and improved food security?
Results from East and Southern Africa

- Chapoto & Jayne (2009), Minot (2013) finds that:
  - Maize price volatility is significantly higher in countries that actively intervene in their maize markets than it is in countries that make little or no effort to manage prices

- Minot (2013)
  - Prices in Malawi, Zambia, and Zimbabwe, experience food price movements that are more than 50 percent more volatile than in countries that do not have entities engaged in maize trade
Do Trade Restrictions Promote More Stable Prices?

Source: Chapoto and Jayne 2009, 2015
Do Trade Restrictions Promote Price Predictability?

Source: Chapoto and Jayne 2009, 2015
Maize grain price unpredictability:
Lilongwe, Malawi Vs. Maputo, Mozambique
Import and export bans

Please Note !!!

When grain prices spike above import parity, consumers are being unnecessarily taxed by an inefficient market

Import ban/restriction

When grain prices fall below export parity, producers are denied income opportunities from crop sales

[Export Ban]
Export bans and trade restrictions

- Generally doesn’t stop trade from occurring but raises smuggling costs, which depress prices for farmers and raise costs for consumers.
Zambia: Maize Market + Ad-hoc Policies

- **Deficit years**
- **World Food Crises**
- **Bumper harvest**

Nominal US$ per metric ton:
- **CIF from South Africa**
- **Lusaka wholesale price**
Malawi: Maize Prices vs. Import parity

Nominal US$ per metric ton

- CIF from South Africa
- Lilongwe wholesale price
Reduced Government Participation increases private sector participation

Zambia 2013/14 bumper harvest experience

- Government committed:
  - to buy less
  - charge commercial mills economic prices for maize from the FRA

- Resulted in increased trader activity, higher spot prices for farmers, and increased production the following season.
Maize grain price unpredictability: Nairobi, Kenya

  - Removal of variable maize import tariffs from Uganda and Tanzania (except for a 2.75% inspection fee).
Conclusion & Recommendations

3 competing models of roles of government and private sector in food markets:

**Model 1**

Rely on markets, government role limited to:

- Public goods investment
- Regulatory framework
- Strengthening of institutions / defense of property rights
- Policies supportive of private sector entry and competition

**Model 2**

Primary reliance on markets but role for rules-based government operations

- e.g., buffer stock release in response to defend stated ceiling price
- Marketing board purchases at stated floor price announced in advance
- Transparent rules for initiating state imports

**Model 3**

Role for markets and discretionary government intervention

- Based on premise that private sector cannot ensure adequate food supplies in response to production shortfalls
- Justification for unconstrained role for state interventions in markets to correct for market failures
Conclusion & Recommendations

- Government operations in markets are costly.
  - Not clear improvements in price stability and food security

- Government actions should be predictable.
  - Set clearly defined and transparent rules for triggering government intervention with regard to changes:
    - in parastatal purchase and sale prices,
    - import and export decisions,
    - tariff changes and stock release triggers

- Government actions should facilitate regional trade, because of its potential to:
  - raise farm-gate prices in areas of surplus
  - reduce consumer prices in areas of deficit
Conclusion & Recommendations

Unpredictable policies

Mistrust between Private sector and Government

Limited private sector investment and market participation
Zikomo Kwambili
Bonus Slides
Strategic interactions between public and private sector in food markets

- 3 recurrent processes
- Examples from Zambia
National food production shortfall anticipated

Who’s going to import? And how much?

State announces plan to import X tons

Supplies dwindle; prices skyrocket

“EVIDENCE THAT MARKETS FAIL!”

State incurs delays in contracting for imports

Private traders sit on sidelines
National food production shortfall anticipated

Trader arranges to import; asks for waiver on import duty

Government delays in waiving import duty rate

Supplies dwindle; prices skyrocket

“EVIDENCE THAT MARKETS FAIL!”

Private sector delays importation; intrigue over timing of waiver
National food production / balance sheets indicate adequate harvest

Import licenses applied for but not granted

Prices rise as actual supplies dwindle

Supplies dwindle; prices skyrocket

"EVIDENCE THAT MARKETS FAIL!"

Charges of hoarding and trader manipulation of market
Government Failure or Market Failure?