



Managing food price instability in East and Southern Africa

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abstract

with the African majority to redress the neglect of smallholder agriculture during the colonial period (Jayne and Jones, 1997). This commitment has been maintained and strengthened in recent years with the rise of a privileged class of “emergent” African farmers, many of whom have acquired land with the help of political connections (Deininger and Byerlee, 2011; Sitko and Jayne, forthcoming). Because they tend to be relatively large surplus grain producers, their interests are united closely with the more traditional large-scale commercial farmers. The “indigenization” of the formerly white farm lobbies has provided new impetus for price stabilization – and protection – of staple food grains through strong marketing board operations, whereas countries with less powerful farm lobbies such as those in West Africa have largely abandoned them (Anderson and Masters, 2009; Masters and Garcia, 2010).

The second factor explaining government use of food price stabilization policies has to do with longstanding concern for the effects of price instability and in particular, high food prices, on poor rural and urban consumers. In this respect, there is much less regional difference; most governments throughout sub-Saharan Africa are strongly committed to keeping food prices from rising beyond tolerable levels as demonstrated by government responses to the 2007/2008 world food price crisis. However, despite their efforts, most governments in the region were unable to prevent domestic food prices from rising up to, or exceeding, import parity

executed parastatal price stabilization operations can in theory put an upper bound on food prices and also protect against downside price risk by defending floor and ceiling prices through stock accumulation and release onto markets. The weaknesses of Option 2 are that (1) successful implementation requires a great deal of technical and management skill that most marketing boards in the region may not possess; and (2) given the long history of ad hoc state intervention in food markets, it is not clear whether Option 2 could be regarded as a credible policy.

Despite being the most common approach for the role of government in food markets, Option 3 is clearly vulnerable to lack of trust, cooperation and coordination between the private and public sectors. In much of Eastern and Southern Africa, food markets continue to be plagued by a high degree of uncertainty and ad hoc government entry into and retreat from markets, despite official policy pronouncements which are largely inconsistent with actual state behavior. These inconsistencies give rise to problems of credible commitment regarding governments' policy statements (North, 1994), and hence create risks and costs for private traders. The high degree of policy uncertainty and control over trade impedes private investment and development in agricultural assessment of the countries' market performance but rather

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at 3.6% per year. Almost all of the growing demand in the region is due to rising urban populations, which are growing at over 4% per year. This highlights the importance of developing more effective systems for enabling African consumers to rely on and support their own rural farmers for food rather than international sources, so that expenditure growth multipliers can be captured within the region. This brings us back to the importance of public goods investments to reduce the costs of domestic production and marketing between rural and urban areas. At the same time, it must be acknowledged that promoting regional trade without farm productivity growth is not likely to seriously reduce the region's growing dependence on imported food.

4. The distributional effects of shifting food price, and the political challenges that they create, motivate for a public investment focus on reducing the costs of production and marketing as part of a comprehensive strategy to address the problems of food price instability. Reducing costs, for example through productive national systems of crop science and extension, investment in physical infrastructure, and irrigation relieves the political trade-offs between farmers and consumers because lower food prices can remain profitable to farmers once a system is in place that effectively and sustainably lowers production and marketing costs over time. Progress in this direction over time will also progressively depoliticize the issue of food prices as it has in most high-income countries, thereby freeing up public resources for investment in long-term productivity growth.

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