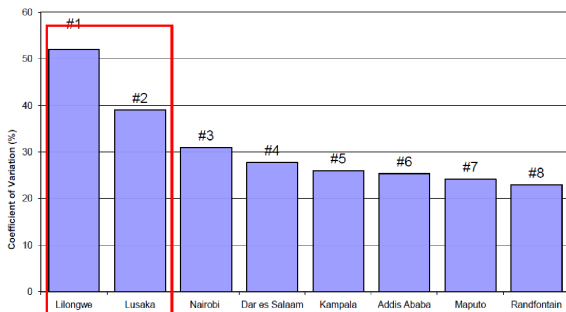


Comments on Jayne and Minot: A Review of Experience in Sub-Saharan Africa

Obie C. Porteous
Agricultural and Resource Economics
University of California-Berkeley

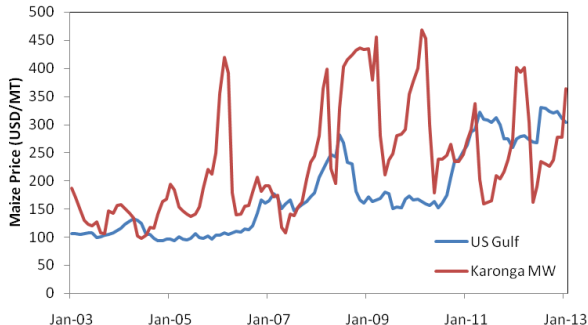
World Bank Conference on Food Price Volatility,
Food Security and Trade Policy
September 18-19, 2014

A Word of Caution on Causality



- Do discretionary policies *cause* higher price volatility? Or are they a response to higher price volatility?
 - ▶ Policy-makers may argue for the latter explanation
 - ▶ Anecdotal evidence suggests discretionary policies increase volatility
 - ▶ Hard to establish causality (models? clever identification?)

A Different Type of Challenge in Africa?



- Food prices generally *more* volatile than on international markets
- African markets tend to be too insulated rather than too exposed
 - ▶ Trade policy, but also transport and other trade costs
- Local prices equalling international prices would be an improvement
- Is trade the answer? Yes, but it's complicated...

Profile of an African Food Price Spike

- Inaccurate and late information about harvests and shortfalls
- Private sector paralyzed by uncertainty
 - ▶ Imports take time
 - ▶ History of last-minute unpredictable discretionary policy
 - ★ Import tariff waivers
 - ★ Direct government imports sold at subsidized prices
 - ★ Food aid?
- Transport capacity constraints
 - ▶ Large quantities of grain cannot be imported quickly (unlike Asia?)
 - ▶ Information and government decisions come too late
 - ▶ Prices soar beyond parity bounds for lengthy periods (3-6 months)

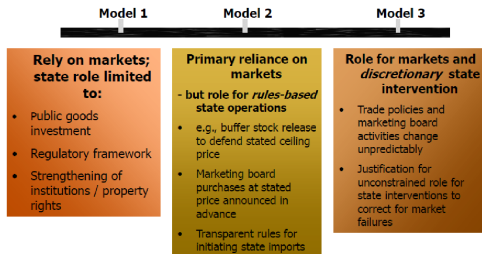
Market Failures That Can Be Addressed by Policies

- Inaccurate and late information about harvests and shortfalls
 - ▶ Strengthen annual crop forecasts and other information systems
- Private sector paralysis
 - ▶ Replace unpredictable discretionary (C) with predictable rules-based (B)
- Transport capacity constraints
 - ▶ Infrastructure improvements (hard and soft)
 - ▶ What about storage?

A Role for Storage

- Private storage: lots of intra-annual, limited inter-annual
 - ▶ Climate of uncertainty
 - ▶ Very high cost of capital (understandable from bankers' perspective)
 - ▶ **Expectation of government intervention in case of crisis**
 - ★ Market distortion leading to sub-optimal storage by private sector
 - ★ Very hard or impossible to remove (would take a very long time)
- Public strategic grain reserves?
 - ▶ Last-resort public stocks to be tapped into in times of crisis
 - ▶ Rules-based operations (linked to import parity?)
- Private storage subsidies?
 - ▶ May be difficult from a political economy perspective
 - ▶ Should be as inclusive as possible (trader size and location)

Competing Models or Roadmap for a Transition?



- What should countries in Model 3 do?
 - ▶ 3 does not work, 1 won't work (for now) given existing distortions
 - ▶ 3 to 2 (to 1 eventually?)
- What should countries in Model 1 do?
 - ▶ Avoid the trap of Model 3
 - ▶ Learn lessons from others before trying any Model 2 policies

Africa's Role in Collective Action Problem

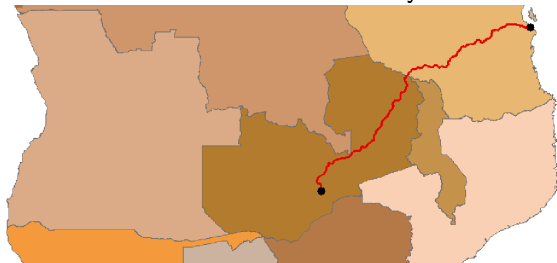
	Maize	Wheat	Rice
Percent Share of Global Exports (2001-2010)	0.50%	0.06%	0.17%
Percent Share of Global Imports (2001-2010)	1.72%	9.06%	24.28%

41 countries of sub-Saharan Africa excluding South Africa. Source: USDA.

- Export restrictions by individual African countries likely have no effect on food prices outside of Africa but may have destabilizing effects within Africa
- Export restrictions by other countries likely do have an effect on Africa (especially for wheat and rice)
- "Panic imports" and import tariff adjustments by African countries may affect food prices outside of Africa
 - ▶ These effects could be reduced by the policies we have discussed (information, infrastructure, rules, storage)

Africa Can Help With International Price Volatility

150,000 MT of maize from Lusaka to Dar: today 20 months, tomorrow ?



- Removing transport bottlenecks and reducing trade costs opens up possibilities for exports
- Access to elastic world markets creates incentives to adopt technology and expand production
- Better integration means less volatility (uncorrelated yield shocks)