

1. Sub-Saharan Africa experiences

1.1 Cotton in Burkina Faso: the shift from government level price controls to a sector-led response to price volatility

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Summary

What has been done? In 2006, Burkina Faso implemented a new mechanism to stabilize producer prices in the cotton sector. It is innovative in two respects. Firstly, because the producer price is calculated from a “moving” average of international cotton prices. Until 2006, standard practice was to set a purchase price based on a hypothetical value of average long-term cotton prices. The result was to address price levels rather than price volatility. The advantage of stabilization measures based on a moving average, which is adjusted annually, is to strike a balance between the desire to reduce price volatility and the need make adjustments based on international prices. Moreover, a purchase price determined by mathematical rules limits opportunities for lobbying. The second innovative characteristic of this mechanism is the creation of a risk mitigation fund, the *fonds de lissage*, managed by local players in the cotton sector. Based on a matching contribution and withdrawal system, the fund is designed to manage risks associated with short-term, highly volatile cotton prices without government intervention. Depending on whether the selling price of cotton is lower or higher than forecasts made earlier in the year, cotton companies contribute or draw from the fund to ensure price stability and their financial balance. To ensure transparency, the fund’s management has been outsourced (by tender) to a local bank.

How has it been implemented? The evolution of price stabilization measures has gone through three distinct phases in Burkina Faso, which differ in terms of the level of coordination of local stakeholders and degree of government intervention. Prior to 1999, all activities of the cotton sector were administered by a single, state-run company, SOFITEX, which had a legal monopoly over purchasing, trituration, marketing and input supply. In 1999, a Memorandum of Understanding was signed, providing for a five year price-fixing mechanism based on negotiation within the cotton sector trade association. In 2005, the sector went through a crisis triggered by a combination of factors, including the sharp drop in international cotton prices, which the price-fixing mechanism was unable to adapt to. In 2006, the new mechanism was implemented. The evolution of price stabilization policy in Burkina Faso reflects the gradual withdrawal of government involvement, combined with the reinforcement of the sector’s trade association and a context of low international prices, all which have facilitated reform.

What were the effects? Effective smoothing of producer prices: during the implementation period of the new mechanism, the coefficient of variation of the

Cotlook A Index was 5% compared to 4% for real prices to producers (after rebate). Moreover, the coefficient of variation of producer prices was also lower than under the old system (8%). The *fonds de lissage* has been divided by 6 in five years. Had cotton prices not improved in 2009/2010, the fund would have dried up. As regards the price trend, there is little capacity to predict the direction and magnitude of changes. Production levels have not improved despite the stabilization of producer prices.

Table 15 : Risk mitigation fund

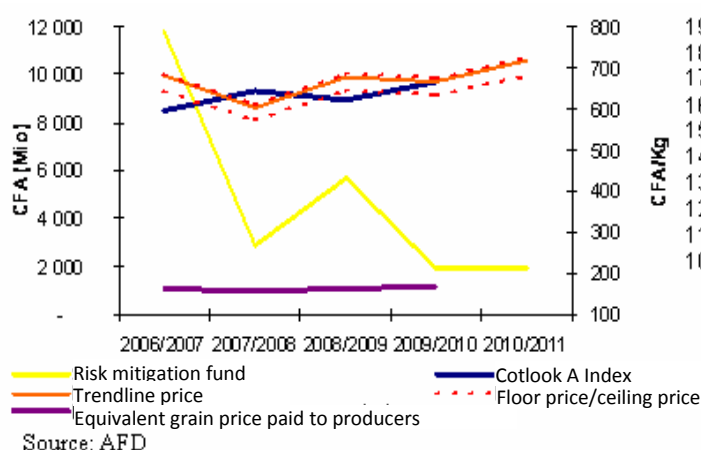


Table 16 : Real producer prices (FCFA/kg)

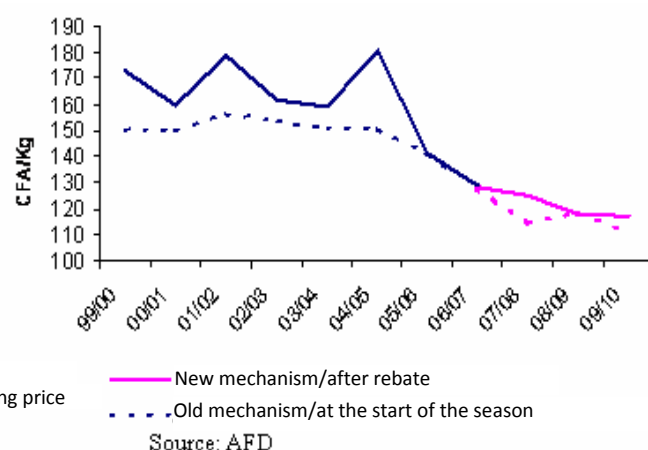
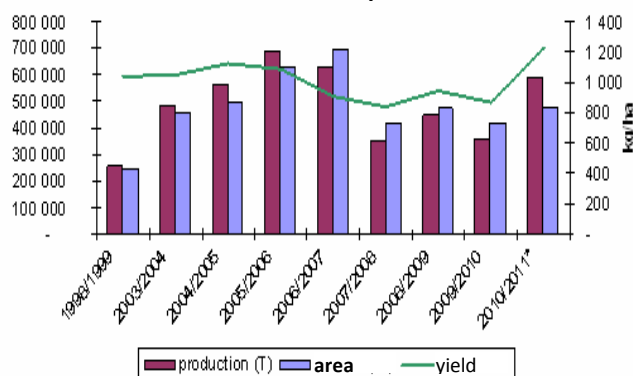


Table 17 : Cotton seed production 1999-2010



What recommendations could be derived? Various factors explain the stagnation of production, despite the relative stabilization of prices. (i) The “risk price” is only one factor of income instability. In particular, producers’ high debt levels increase production risk, partially nullifying the expected effect of reducing price uncertainty; (ii) Stabilization mechanisms cannot mitigate “trends”. A number of trends have diminished the margins of farmers, including lower international prices and the rising cost of inputs. (iii) The stabilization policy does not take a systems approach to farming. The drop in producer prices has led farmers to move into food crops, despite even greater price volatility in these markets.

1.2 Market regulation through a seasonal ban on potato imports: the case of Guinea

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Summary

What has been done?

From 1992 to 1998, the Guinean government implemented a seasonal ban on potato imports. For seven years, imports were banned during the period when local potatoes were sold on the market, from February 1 to June 30. The measure was introduced under pressure from Guinean potato producers, organized under a federation of producers in the country's main potato production region, the Federation of Fouta Djallon peasants. The seasonal ban was accompanied by significant production support (including distribution of certified seeds, fertilizers, extension services, management consulting, irrigation schemes) issued by the Federation itself to its members, thanks to the technical and financial support of several partners. These efforts helped overcome the Guinean government's shortcomings in the matter.

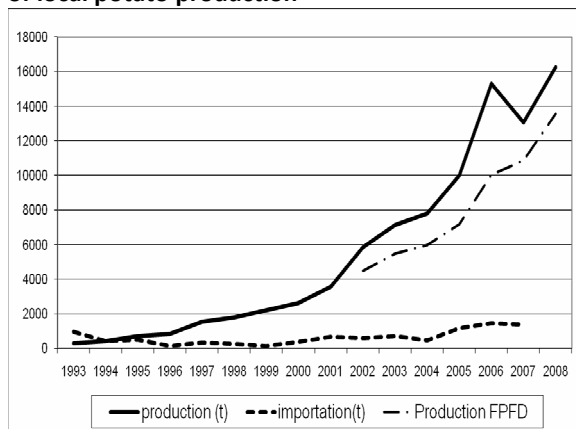
How has it been implemented?

The role of the Federation was instrumental in setting up and, eventually, lifting the seasonal ban, once the Federation had sufficient production capacity to supply the Conakry market. The Federation both lobbied the government to accept the ban (despite the constraints of the structural adjustments that were underway), and led negotiations with local retailers and importers. The Federation set up a contractual relationship with importing traders and supported the emergence of local traders (mostly women) to market local potato production.

What were the effects?

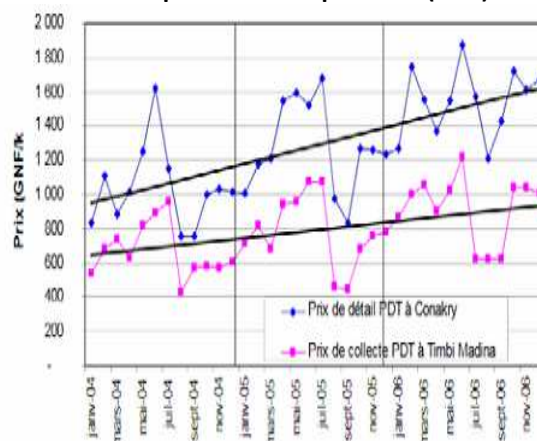
The combination of seasonal import bans on potatoes and the support measures to producers has had spectacular results on production and price stabilization. Local potato production has gone from 150 tons before 1990 to about 16,000 tons today. Demand on Guinean markets is largely met, and the Federation is in the process of exporting its surplus potatoes. Markets in neighboring countries present considerable potential (Senegal imported approximately 50,000 tons of potatoes from the European Union, for example). Leveraging this potential may help to stabilize prices in Guinea and strengthen the regional integration process, without necessarily exporting instability. When the Federation set out to boost potato production, one of its priorities was to strike a balance between attractive producer prices—negotiated by the Federation with traders—and reasonable consumer prices. Indeed, replacing imported potatoes with local production called for price competitiveness, not just quality. Retail potato prices have been contained so far and fluctuations smoothed thanks to several mechanisms: increased supply, lower production costs, cost control of margins related to marketing and storage.

Table 18 : Trends in harvesting costs and retail prices of local potato production



Source: FAO DYNAFIV/GRET, Impact des mesures tarifaires sur l'agriculture et l'agroalimentaires, 2005; FPDF, Marketing Report, 2006, 2007, 2008

Table 19 : Real prices of local potatoes (GNF)



Source: Pierre Bal, DYNAFIV, exploitation données SIPAG

What recommendations could be derived?

Several factors were determinant in the Guinean experience: the combination of a border measure with substantial production support; negotiations that involved producers, traders and the government; the capacity of the Federation to lobby the government, support its members, link to traders, track market prices; the existence of an export potential at the sub-regional level.

1.3 Maize marketing and trade policies in Kenya

Sophie Barthelon, ENGREF and Elodie Maître d'Hôtel, CIRAD

Summary

What has been done? Kenya has a long tradition of government intervention on maize markets, even during the so-called liberalization period. Recent interventions include:

- Reinforcement of maize marketing policies since 2000 (buffer stock, regulation of producer prices);
- Control of trade through non tariff measures and tariffs that tend to fluctuate less.

How has it been implemented? The government has implemented a wide scope of policies (thanks to higher public expenditures allocated to maize market regulation since 2000), but has not managed to enforce compliance with these policies. For example, the steps taken by the government related to imports ultimately exacerbated the maize crisis in 2008.

What were the effects? Prices seem to have stabilized in the wake of the government's renewed intervention in maize markets, particularly the tighter controls over marketing policies. Overall, producers have experienced higher production growth rates during interventionist periods. However, as our findings below show, producer prices have fluctuated more in the most recent period. (This is inconsistent with Jayne's findings that the National Cereals and Produce Board has a smoothing effect on price instability, but it is possible that our findings of increased instability are related to the 2008 crisis.)

Coefficient of variation	1994-2004	2005-2008
Producer prices (yearly data, FAOSTAT)	0.23	0.37

The effects of intervention on consumers has been a trend towards lower prices (perhaps due to a structural change in 2007?) and less volatility.

Coefficient of variation	1994-2004	2005-2008
Wholesale real price (monthly data)	0,22	0,19

What recommendations could be derived? There is still room to regulate markets more actively, through buffer stocks and import controls, for instance. Periods of heavy intervention on markets seem to correspond to greater stability (although better weather conditions during these periods could be the influencing factor, as well). The government should be encouraged to define and implement credible policies based on a transparent consultative process that involves the key stakeholders.

1.4 Rice stabilization policies in Madagascar

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Summary

What has been done? Government intervention in marketing and the major production areas has been increasing since independence in 1960, through the early 1970s. From 1973 to 1977, state-run companies controlled all downstream marketing activities. From 1980 to 1990, the government gradually withdrew. Structural adjustment policies were accompanied by the rehabilitation of irrigation systems, which came under the management of water user associations. During the 2000s, policies aimed at increasing domestic supply through production support and regulation of urban supply through imports.

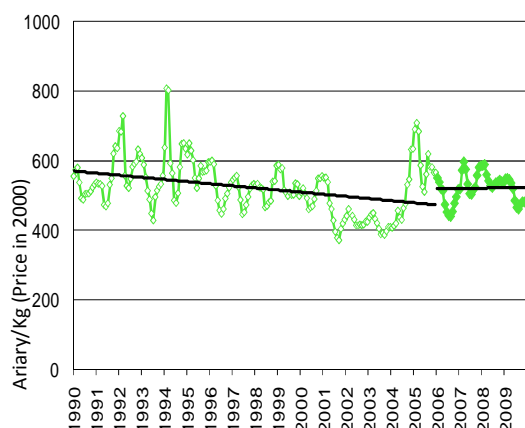
How has it been implemented? Until the late 70s, government intervention took the form of land development corporations in two of the main rice production areas. The government also intervened through parastatals, which had a monopoly over the purchase and distribution of rice, and set prices for both producers and consumers.

After liberalization, state intervention focused on setting import levies (with rates ranging from 30% to 0%) and ad hoc initiatives like facilitating imports during crises. Efforts to increase production included investment in irrigation infrastructure (rehabilitation), intensification incentives based on access to inputs (such as recent efforts to encourage off-season rice), and incentives to expand rainfed production through access to mechanization. Microcredit has also expanded significantly, to finance production and storage.

Starting in 2005, the government implemented two innovative instruments to improve the management of the sector: an observatory and a consultative mechanism to encourage dialogue between the government and industry players.

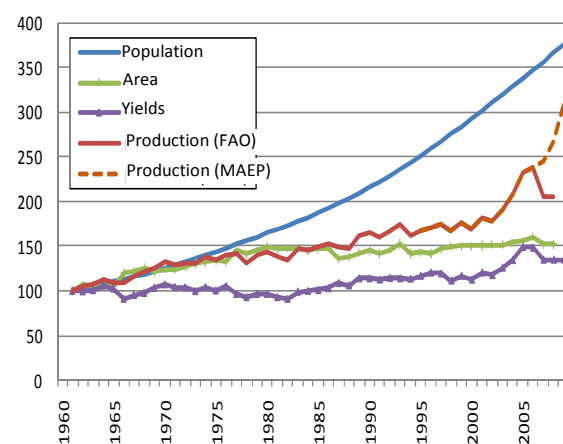
What were the effects? The centralizing policies of the 70s completely destroyed marketing channels and producers' interest in the market. Availability per capita fell (from 200 kg to 125 kg/per capita between 1970 and 2000) and imports increased. Since 2002, production levels have shown a marked increase, and starting in 2005, fluctuations in consumer prices stabilized, despite a troubled national and international context.

Table 20 : Local real rice prices, retail (Tanananarive)



(Source: Author's calculations based on datasets from INSTAT)

Table 21 : Population growth and agricultural production



(Sources: FAO and MAEP)

What recommendations could be derived? The period of total government control was catastrophic the recover long. The recent positive developments in the rice sector are partly the fruit of production support and infrastructure development efforts (irrigation and transportation), and partly due to a new form of governance that relies on well-informed decision-makers and public-private coordination. However, multi-stakeholder dialogue has not eliminated the unequal balance of power: measures (including price stabilization) are taken more in the interest of urban consumers than the protection of producers.

1.5 The effectiveness of food price stabilization policies: the experience of Mali (2004 - 2009)

Franck Galtier, CIRAD - UMR MOISA

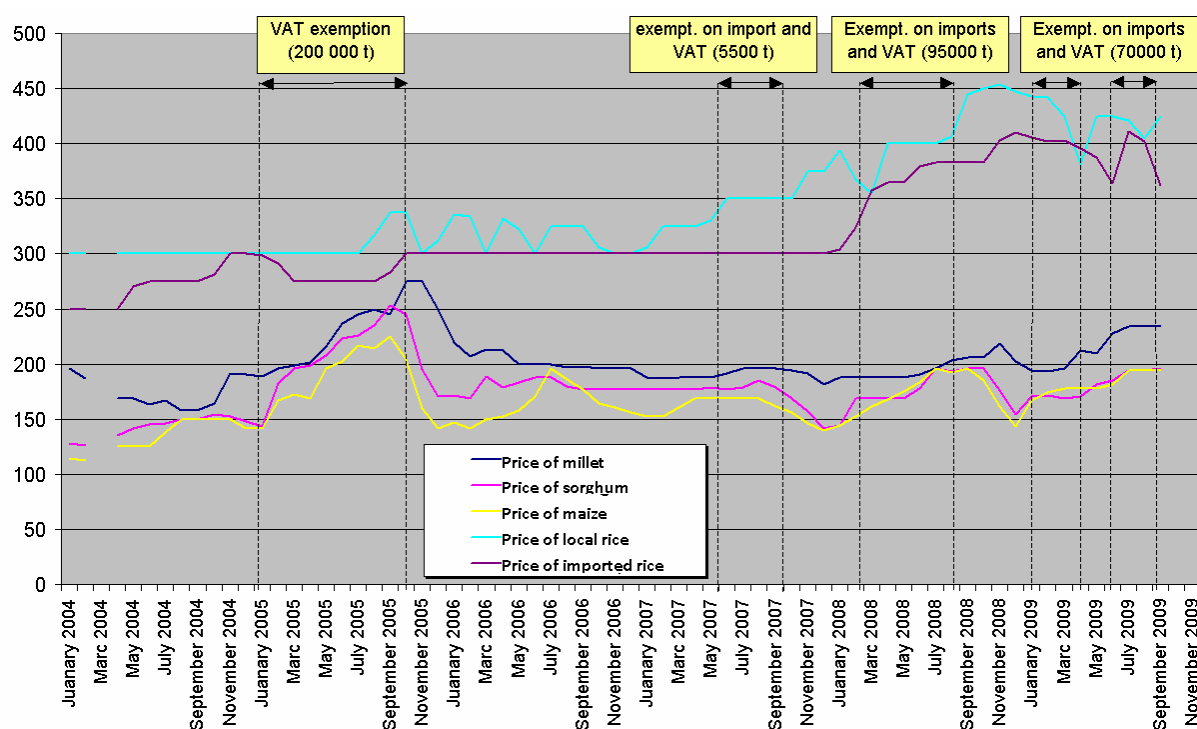
Summary

What has been done? Since 2004, Mali has used four instruments to periodically stabilize domestic cereal prices (millet, sorghum, maize and rice): (i) a ban on exports (2007 and 2008), (ii) a recovery plan to boost production through input subsidies (for rice in 2008; for rice, maize and wheat in 2009), (iii) public stocks (especially since 2005, when two new types of stocks were set up (the State Intervention Stock and cereal banks), and (iv) tax exemptions on cereal imports (for rice and maize in 2005, 2007, 2008 and 2009 and for maize only in 2005). The outreach of these government interventions as well as their modalities have varied considerably, depending on the instrument, the year and products targeted.

How has it been implemented? The *decision-making process* is complex. The different instruments are often managed by different agencies (e.g., the Ministry of Commerce for export bans and tax exemptions on imports; the Ministry of Agriculture for recovery plans; the cereal bank management committee for decentralized stocks, located in 703 of the country's municipalities). Decisions are made by the President and the office of the Prime Minister, with support from the Food Security Commission. The *effective implementation of policies* has sometimes proved difficult. Export bans have been circumvented. Importers have not always benefited from tax exemptions. The subsidized inputs for producers often arrive late, and in insufficient quantities (particularly for seeds). Finally, purchases for certain public stocks at times came too late (especially for the State Intervention Stock, which lacks working capital to make timely purchases).

What were the effects? The *ban on exports* has not managed to discourage cereal exports. Not enough, at least, to affect prices in Mali. The bans have not had the expected moderating effect on consumer prices, but nor have they penalized producers—or only very marginally. *Policies to boost production* have had a moderate impact on production levels (+ 20% below the stated goal of a 50% increase) and prices (which declined slightly and stabilized at a high level). *Public stocks* have had little effect on prices. Perhaps they have helped absorb fluctuations due to seasonality, but they have failed to contain increases in times of crisis. This is probably due to the small size these operations: only 28,000 tons were released during the crisis of 2005 (15,000 tons of dry cereals + 13,000 tons of rice) and 53,000 tons during the 2008 (32,000 tons of dry cereals + 21 000 tons of rice). The *tax exemptions on imports* has had a moderating effect on prices of imported rice, but have also driven down prices of locally produced cereals (including dry cereals). This is what happened in the Kayes region in 2005 and in various other areas in 2009. This phenomenon holds true for both consumer prices and producer prices.

Table 22 : Effects on retail prices in Kayes of VAT exemption and tax exemption on imports



Source : Galtier F., Diakité L. et Diarra S. (2011)

What recommendations could be derived? The *instruments* that have been found to be potentially effective are tax exemptions on imports, recovery plans to boost production, and public stocks (provided they grow in size). The *form of governance* and decision-making process is at least as important as the choice of instruments. For example, for public stocks to be effective, their administrators need working capital at their disposal. Similarly, for tax exemption measures to be effective, importers must actually benefit from them. This implies defining the terms of these exemptions with the importers, and ensuring compliance through control measures.

1.6 The Malawian experience in maize price stabilization

Arlène Alpha (GRET), Françoise Gérard (CIRAD)

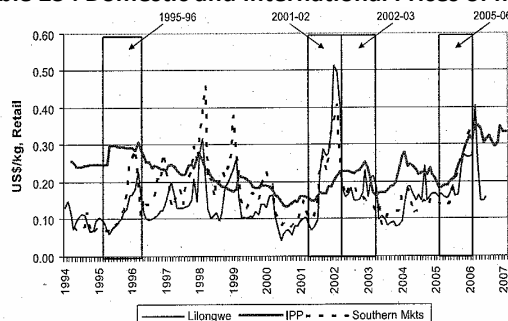
Summary

What has been done? Malawi has a long tradition of intervention in maize markets that dates back to the colonial period, was pursued after Independence and continued through the mid-1980's: pan-territorial and pan-seasonal prices, subsidization of fertilizers. After a liberalization period from 1987 to 2000, during which the Agricultural Development Marketing Corporation (ADMARC) was privatized, maize fertilizer subsidies and licensing requirements for traders were removed and the government once again started to intervene through a vast program of input subsidies and the reinforcement of ADMARC.

How has it been implemented? The Malawian government, which controls all formal maize imports, greatly influences maize trade policy. The main criticism of this policy concerns the unpredictable and discretionary nature of government decisions, such as sudden imposition of trade restrictions, import bans and changes in tariff rates. Ad-hoc governmental operations tend to increase risk and discourage private trade initiatives. They also often exacerbate food crises, driving the cost of food staples well beyond import parity price.

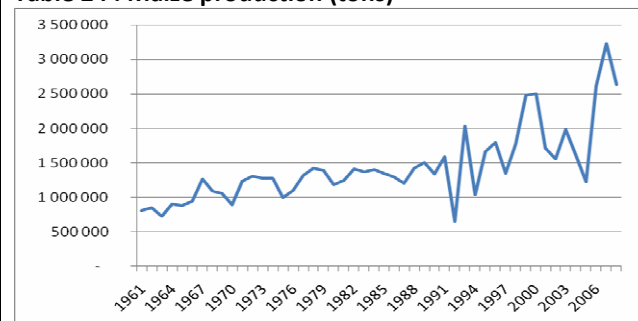
What are the effects? During the 1983-1993 period, the implementation of a policy package combining ADMARC's intervention on the grain market; seed, fertilizer and credit delivery; extension services; and rural infrastructure development resulted in positive effects on yield and production growth. More recently, growth in maize production has been striking. It is still too early to understand what is driving this trend. Favorable climatic factors may be at play. The free seed and fertilizer programs of 1998 and the Agricultural Input Subsidy Program in place since 2005, combined with stronger ADMARC's initiatives to guarantee producer prices and price ceilings at retail, may also be behind the increase of maize production. Domestic maize prices appeared to be more volatile than international maize prices during the 1994-2007 period. However, as soon as floor (and ceiling) prices were known, and other producer supports such as those on seed, fertilizer and credit were provided, producers took favorable decisions on farm investment.

Table 23 : Domestic and International Prices of maize



Source: Tschirley and Jayne (2009)

Table 24 : Maize production (tons)



Source: FAOSTAT

What recommendations could be derived? Maize price stabilization is only one component of Malawi's agricultural policy. Maize production growth is the result of a technical package that includes high-yielding varieties, fertilizer and technical advice. However, the unpredictable and discretionary nature of the price stabilization policy has weakened the policy's legitimacy. To be legitimate, the policy must be predictable and include a consultative process with key stakeholders. The choice of pan-territorial producer prices in such a long country leads to some difficulties and inefficiencies in remote areas. Some actors in Malawi are currently experimenting with market-based instruments, but it is too early to assess their impact.

1.7 Maize marketing and trade policies in Zambia

Elodie Maître d'Hôtel, CIRAD

Summary

What has been done? Zambia has a long tradition of intervention on maize markets, even during the so-called liberalization period. Intervention has intensified since 2005, including (i) measures to tighten control on trade through import licenses, import tariffs and non tariff measures; and (ii) policies influencing maize marketing, such as input subsidies and security and buffer stock schemes.

How has it been implemented? Zambia has implemented a wide scope of policies (thanks to higher public expenditures allocated to maize market regulation), but has not managed to enforce compliance with these policies. For instance, some discretionary policies have tended to discourage private actors' involvement in maize markets (2001/2002 and 2002/2003 crisis).

Despite the strong political influence of the Zambian National Farmers Union (ZNFU), small holders' interests are not really represented due to the lack of an official consultative mechanism.

What were the effects? Effects on producers include higher production growth rates during interventionist periods (no data is available on changes to producer prices).

Effects on consumers include a trend towards lower prices and less volatility.

Coefficient of variation	1994-2004	2005-2009
Wholesale real prices (monthly data)	0,35	0,24

Maize prices seem to have stabilized in the wake of the government's renewed intervention in maize markets, particularly the tighter controls over trade and marketing policies, but it is unclear whether this stabilization is due to increased public intervention or other factors (such as favorable climatic conditions). Authors have emphasized ineffectiveness of public intervention and widespread mistrust between the public and private sector, which tend to diminish policies' capacity to decrease food price volatility.

What recommendations could be derived? There is still room to regulate food markets more actively, such as through buffer stock and import controls. Periods of heavy market intervention seem to correspond to greater stability (although improved weather conditions could be the influencing factor, as well). The government should be encouraged to define and implement credible policies based on a transparent consultative process that involves the key stakeholders.