

Policy responses to high food prices: Which way forward?

Introduction

- World food prices continue to be higher than their long-term average trends after the food price crisis of 2007-09. The factors that led to the food crisis of 2007-09 still exist currently (in 2011), thus the **food price crisis may recur**.
- In response to the high staple food prices, several countries in the Eastern and Southern Africa (ESA) region put in place various **measures to protect vulnerable groups**. Among these measures, **price policies** were an important component.
- Price policies are aimed at either **keeping prices low** or **keeping prices stable**. These measures have short- and long-term impacts. Understanding these impacts is important for guiding policymakers when choosing appropriate policy options.

Past examples of food price policies in the ESA region

Policies that keep prices low

- Reduction of domestic taxes on food commodities
- Food subsidies
- Burundi, Democratic Republic of Congo (DRC), Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Mauritius, Rwanda, Sudan, Tanzania, Uganda, Zambia and Zimbabwe

Policies that keep prices stable

- Buffer stocks : Ethiopia, Kenya, Sudan, Tanzania and Zambia
- Export bans: Ethiopia, Kenya and Tanzania
- Price controls: Djibouti, Eritrea, Ethiopia, Malawi and Sudan



Pros and cons of various price policy options

Policy option	Pros	Cons
Reduce domestic taxes on food commodities	<ul style="list-style-type: none"> ➤ Lowers price of food hence improves welfare of net buyers of food ➤ Does not reduce farm gate prices hence producers are not hurt ➤ Could improve nutrition of consumers if nutrient-rich food commodities are targeted 	<ul style="list-style-type: none"> ➤ Reduces government revenue ➤ Traders may not necessarily transfer the benefit of reduced prices to consumers
Reduce import taxes	<ul style="list-style-type: none"> ➤ Reduces price of imported food hence could increase domestic supply of food by encouraging imports ➤ Can make food cheaply available to consumers ➤ In the long term, it may lead to specialization in production in importing and exporting countries 	<ul style="list-style-type: none"> ➤ May hurt domestic producers of food in the short term ➤ Reduces government revenue
Price controls	<ul style="list-style-type: none"> ➤ Maximum price legislation is able to protect vulnerable consumers ➤ Minimum price legislation is able to protect producers 	<ul style="list-style-type: none"> ➤ Maximum price legislation can create disincentives for producers, leading to food shortages ➤ Could lead to emergence of black markets unless the government has buffer stocks to cover shortages ➤ Monitoring could be difficult and expensive
Food subsidies	<ul style="list-style-type: none"> ➤ Protect vulnerable consumers without hurting producers ➤ If well targeted, can improve food and nutritional security of vulnerable groups 	<ul style="list-style-type: none"> ➤ Expensive; may only be viable in the short term ➤ May face challenges of high transaction costs due to potential for moral hazard among consumers
Export bans	<ul style="list-style-type: none"> ➤ Retain food in the domestic market hence prices in the local market are kept relatively lower ➤ Can protect domestic consumers from volatility of food prices 	<ul style="list-style-type: none"> ➤ Food prices increase in importing countries which may lead to retaliation ➤ Welfare loss for actors in the food export value chain ➤ Producers are hurt by lower prices hence long-term incentives to produce may be jeopardized ➤ May result in increased cases of 'illegal' trade
Buffer stocks	<ul style="list-style-type: none"> ➤ Stabilize prices for both producers and consumers ➤ Can reduce post-harvest food losses 	<ul style="list-style-type: none"> ➤ Expensive to operate and face high risk of mismanagement and political interference

- Design and implement cost-efficient, long-term social protection programs for vulnerable groups in the ESA region in order to cope with the recurring food price crisis.
- Target policies in a timely manner to ensure cost-effectiveness and preservation of long-term food security goals.
- Ensure policies are predictable so that they do not jeopardize private-sector investments in staple food trade.
- Speed up efforts to increase regional trade in food staples by removing barriers such as import taxes and export bans. This will shield net food buyers from the effects of high and volatile food prices while also benefiting the region's food producers.