



Agricultural price volatility and its impact on government and farmers: a few observations

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Presentation structure

1. Price volatility and farmers
2. Price volatility and farmers organizations (FO)
3. Government reaction
4. What are the future prospects?
5. Recommendations



Price volatility and farmers

Food prices and volatility

- There are two factors critical to explaining the transmission of international food price trends to domestic markets:
 - the relative share of domestic food demand satisfied by either domestic food production or by food imports; and
 - the ability of government / public policy to regulate domestic markets through trade policy at the border and/or the instruments of domestic policy (*consumer subsidies, social safety nets, price surveillance policies and competition policies*).
 - ***Extreme volatility in food prices deters producers from making the necessary investments for increasing productivity and production.***

Impact of volatility on farmers 1

- **Producers (farmers): Intra-annual volatility**
- Most farmers are aware of the advantages of stocking production, however, they are often forced to sell at harvest time when prices are lowest, because of:
 - Over-commercialization in relation to household needs, due to liquidity constraints at harvest time and lack of storage capacity.
 - Undervaluation of produce which occurs when farmers in surplus areas sell low during harvest season, rather than waiting for the lean season, when profits are higher.

Impact of volatility on farmers 2

- **Inter-annual volatility**
- Producers struggle to generate high returns and thus stabilize market supply due to lack of long-term support to agricultural production.
- Lack of security induces highly variable returns that exacerbate volatility.

Impact of volatility on farmers 3

- Farmers struggle to plan their economic activities, as price volatility makes it difficult to obtain a reasonable price every year.
- The instability means that prices often do not serve as signals for farmers to make decisions on what to plant and when.

Impact of volatility on farmers organizations 1

- Farmers' organizations (FOs) often have planning and capacity constraints. FOs often provide marketing support to their members through advance payment systems, but struggle with managing price risk for the following reasons:
 - It is difficult to set the purchase price for members when the market price is unknown.
 - For FOs that market produce collectively, choosing when to release stocks is also a challenge.
 - This is exacerbated by the fact that FOs often have limited budgetary flexibility, and little room to take risks or deal with market downturns.

Impact of volatility on farmers organizations 2

- Price volatility can also undermine group/collective dynamics, particularly when it comes to marketing produce i.e.:
 - When production is stored to be sold later, if prices do not increase enough, the operation will fail and be unable to cover the cost of collecting, storing and packaging the produce.
 - Spikes and/or unanticipated price changes can also lead members and/or purchasers to default on commitments or contracts.
 - Reduced margins of small processing units and companies, threatening their survival.
 - These financial constraints make it difficult for companies to access credit, therefore reducing their ability to purchase raw materials in large quantities when prices are low.

Impact of volatility on producers: summary: 1

- Thus, the impact of price volatility on actors in the agricultural industry is mostly negative. However, some actors benefit from the increased intra-annual food prices to recoup costs of their operations. This is the case for market intermediaries, but also producers who can store produce and market it as a group (collective marketing, warrantage).

Impact of volatility on producers: summary 2

- The situation is problematic in the following cases:
 - (i) for producers who cannot store,
 - (ii) a market shift prior to or during the lean period for various reasons: massive imports, food aid or subsidized prices.
 - (iii) There are also cases where price increases of e.g. imported cereals (and manufactured products) improve the competitiveness of local cereals (and local agro-food products), which can have a positive impact on producers.

Policy responses to rising commodity prices in selected African LDCs, 2008-2010

<i>Asia-Pacific</i>	<i>Consumption</i>						<i>Production</i>		<i>Management & regulation of food markets</i>				
	<i>Food assistance</i>	<i>Cash transfers</i>	<i>Food for work</i>	<i>Price subsidies</i>	<i>Price controls</i>	<i>Lower taxes</i>	<i>Prod / Input subsidies</i>	<i>Lower taxes</i>	<i>Lower import tariffs</i>	<i>Export bans/ tariffs</i>	<i>Build-up food reserves</i>	<i>Price support</i>	<i>Import bans or raise tariffs</i>
Burkina Faso	●	●		●	●	●	●	●	●	●			
Burundi	●				●			●	●		●	●	●
Chad	●			●					●				
Ethiopia	●	●	●	●		●		●	●	●			●
Mali	●		●	●					●				
Niger				●	●		●	●	●				
Rwanda	●						●		●		●		
Senegal				●	●	●	●		●		●		●
Tanzania							●		●	●			●
Uganda	●							●	●				

Government reaction 2

- Govts, net importers - high import prices and BOP difficulties; in the case higher food prices, food insecurity.
- Policy response, food insecurity:
 - safety nets
 - food reserves (national/regional)
 - increased productivity enhancing investments to address vulnerability through increased incomes, etc and increases resilience to shocks

Note UNCTAD/SUC TA programmes - Sustainability Claims portal, Warehouse Receipt Systems and supply chain finance, commodity exchanges and price risk management, and market information system all meant to expand participation of farmers in local and regional, markets enhance market access and increase farmers' incomes.

Addressing the impact of price volatility 1

- Farmer organizations' often utilise the following strategies:
 - Collective storage and marketing
 - Warrantage
 - Contracts with public and private actors
 - Contract farming
 - Agricultural stock exchanges
 - Contractual relationship with processors
 - Establishment of regional cooperatives
 - Production support: input credits and training (IT, CEF)
 - Guarantee fund
 - Price and Volume controls
 - Buffer stock and
 - Security fund

Addressing the impact of price volatility 2

- FOs are developing interesting strategies that combine private and public-type instruments, but these initiatives are being implemented on a very small scale, and are largely supported by donors and technical assistance providers.
- Government can play a key role in their operations, often serving as the major trading partner for their products. The current challenge is to develop a joint public-private partnership approach to agricultural development.

Addressing the impact of price volatility 3

- This could involve
 - (i) the introduction of a combination of instruments that aim to anticipate market behavior (e.g. AMIS),
 - (ii) a consultative decision-making approach that brings together supply chain stakeholders and government actors,
 - (iii) price negotiations between public and private players.
- FOs often take care of the production support needs of their members, but the government still has a role to play in facilitating access to agricultural finance.
- Although FOs often test new contractual forms to market their products, the government may need to improve trader regulation and take steps to create a secure environment (by registering contracts, offering possibilities to take legal recourse, etc.).

Addressing the impact of price volatility 4

- Governments need to improve its capacity to stock food in case of crisis or price volatility.
- Trade organizations offer an adequate framework for negotiations and to improve dialogue between the private and public sectors. They exist in several agri-food industries. It would be useful for them to develop their potential (i) to oversee contracts between sector actors and (ii) negotiate with government authorities.
- Regional integration, the free movement of goods and the implementation of a regional agricultural policy should be considered as driving forces for domestic agricultural production.

- **Thanks for your attention!**

- For more information on the UNCTAD SUC's research and technical assistance activities see:

<http://www.unctad.info/en/Special-Unit-on-Commodities>

- For UNCTAD activities under the AAACP see:

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