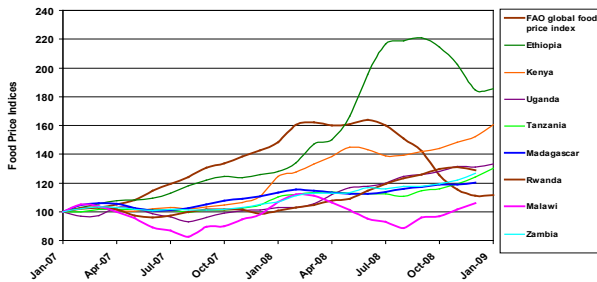




Food price rises: Global smiles, regional frowns?

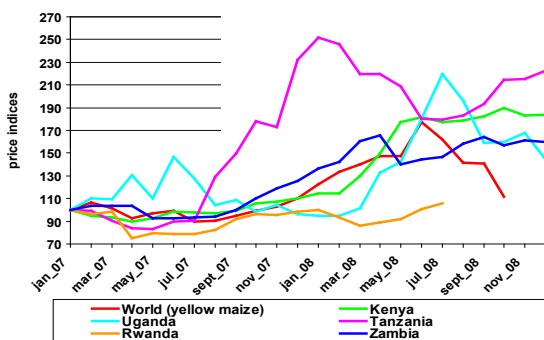
Food price indices



Source: FAO, 2008; country statistics offices

As we can see, Ethiopia experienced the highest food price increase since March-April 2008: Its food price index (FPI) shot up by about 54 percent over a 4-month period, starting from April 2008. Kenya followed in terms of the food price hike, followed by Uganda, Rwanda, Zambia and Tanzania respectively. Tanzania experienced a sharp increase in its FPI between the last quarter of 2007 and the first quarter of 2008: about nine percentage points. However, the FPI in Tanzania stagnated throughout the second and third quarter. The failure of the rains in Tanzania during the previous growing season was partly the cause for the rise in food prices. A bumper harvest for maize and rice was recorded by May 2008 and this could have helped to drive down food prices within the country. Moreover, by March 2008, the Tanzanian government had imposed various measures including tax reduction for rice and a food ration/stamp system that might have helped in containing the rise in food prices within the country.

Maize Price Indices



Data Source: 1 Kenya: Ministry of Agriculture; 2 Uganda: CPI daa; Uganda bureau of statistics; 3 Rwanda: Ministry of Agriculture; 4 Currencysdata National central banks

countries under study were not correlated to global maize prices, apart from Kenya, as explained in the report. The figure above also shows that the decrease in the global maize prices since June 2008 has been matched by steady increases in maize prices within Eastern and Southern Africa, except for Uganda where maize prices have on average decreased since July 2008. That month marks the onset of maize harvesting in the country. In Kenya, maize prices increased steadily during the period between April 2007 and June 2008. This may be attributed to the poor harvest, poor rain, increased input prices especially fertilizers and seeds, and the 2007/2008 political unrest which largely affected the country's grain-basket. By contrast, although maize prices in Zambia reached a peak in April 2008, they dropped significantly following the April/May harvest. These results strongly echo the observations of last year's report, underlining the importance of taking a much closer look at regional and national trends and their causal factors, as a basis for decision making and policies.

Even as the general trend is one of rising prices in the region, the charts show that there are considerable differences among countries. The observed pattern reinforces the earlier message that promoting regional trade and a better integrated regional market holds promise for addressing the food price crisis still stalking the region.

The full report can be accessed at http://www.asareca.org/resources/reports/resp2food_pr_main.pdf or by contacting either j.karugia@cgiar.org or m.waitaha@asareca.org the lead authors of the report.

The collective action underpinning the research: This update is the result of a joint initiative among researchers from ReSAKSS-ECA, ASARECA, and the CGIAR Regional Plan for Collective Action. This research was supported by the United States Agency for International Development (USAID), the Department of International Development (DFID), the Swedish International Development Cooperation Agency (SIDA), CGIAR and ASARECA.

Globally the silence on food prices has been deafening in 2009. No wonder: not only have global food price indices dipped some 50 percentage points off their mid-2008 peaks, there has also been the financial crisis to worry about. In an update to the story reported in this newsletter (Issue 1, July 2008), the ReSAKSS (Regional Strategic Analysis and Knowledge Support Systems) and ASARECA team have worrying news for Eastern and Southern Africa (ESA). In sharp contrast to the global situation, food price indices for the majority of the countries in ESA have continued to rise since July 2008 (see chart).

The authors in their latest report (see below) examine trends for a number of commodities, but maize is the one that currently provides the most clues for why regional prices appear to be only loosely coupled to global trends.

Based on the figure above, the price index of yellow maize in global markets reached a peak in June 2008, when it increased by about 76 percent compared to January 2007; it has been decreasing since. By contrast, maize prices in Tanzania rose much faster, starting from January 2007: they had more than doubled by January 2008. Similarly, maize prices in all the other

Newsbytes

Higher food prices in Eastern and Southern Africa

A study conducted by Michigan State University and ReSAKSS-SA (a collaboration between ICRISAT, IWMI and IFPRI) attempted to understand why regional trends in maize and fertilizer prices do not mirror global trends and what policy implications this may have.

The study identified at least six factors that, when conflated with the recent spike in global prices, keep regional prices high. One of these factors is that Southern Africa, although historically capable of significant export, has become a net maize importer, moving towards an import parity price structure which usually results in higher prices. Another factor is that South Africa's 2006 and 2007 maize harvests were meager and neighboring countries with maize shortages may be incorporating the higher South African prices into their price structures.

Government responses to the rising food prices have also contributed to keeping regional prices high. Believing that the global prices would stay high, governments such as those of Malawi and Zambia attempted to boost their strategic reserves and restricted maize exports to protect domestic supplies. Inevitably, this resulted in pushing regional prices higher. Governments failed to plan properly due to underestimating demand and overestimating maize production levels. This created an environment with unstable supplies as informal trade continues despite the bans, leading to higher transaction costs and lower prices for farmers. Malawi and Zambia, in particular, may face problems as the domestic supplies may not be sufficient to satisfy demand before the 2009 harvest is available. Governments should focus on nurturing opportunities for increased trade among neighbors as this could lower prices.

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