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**February 2, 2015**

## Policy Responses to Food Price Volatility

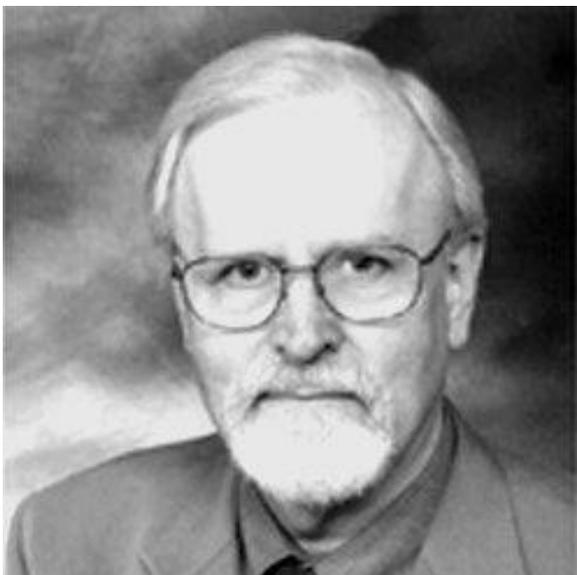
### Presenters

Per Pinstrup-Andersen, *Cornell University*

Danielle Resnick, *IFPRI*

## Upcoming Agrilinks Events:

- Agrilinks Special Event, Feb. 26 2015
  - Launch Seminar: Livestock Emergency Guidelines and Standards, 2nd Edition



## **Per Pinstrup-Andersen**

Cornell University

Per Pinstrup-Andersen is a graduate school professor at Cornell University, adjunct professor at Copenhagen University, non-resident senior research fellow at United Nations University–World Institute for Development Economics Research (UNU-WIDER), and chairman of the High Level Panel of Experts on Food Security (HLPE). Previously, Pinstrup-Andersen served as the International Food Policy Research Institute's director general and is the 2001 World Food Prize Laureate and the recipient of several awards for his research and communication of research results.



## **Danielle Resnick**

IFPRI

Danielle Resnick is a research fellow in IFPRI's Development Strategies and Governance Division (DSGD). From 2010 to 2013, she worked as a research fellow at United Nations University–World Institute for Development Economics Research (UNU-WIDER), where she managed projects on the political economy of food price policy, foreign aid and democracy, decentralization and urban service delivery, and Africa's emerging middle class. She is the author of the book "Urban Poverty and Party Populism in African Democracies."

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*Policy Responses to Food Price Volatility*

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Per Pinstrup-Andersen  
UNU-WIDER and Cornell University

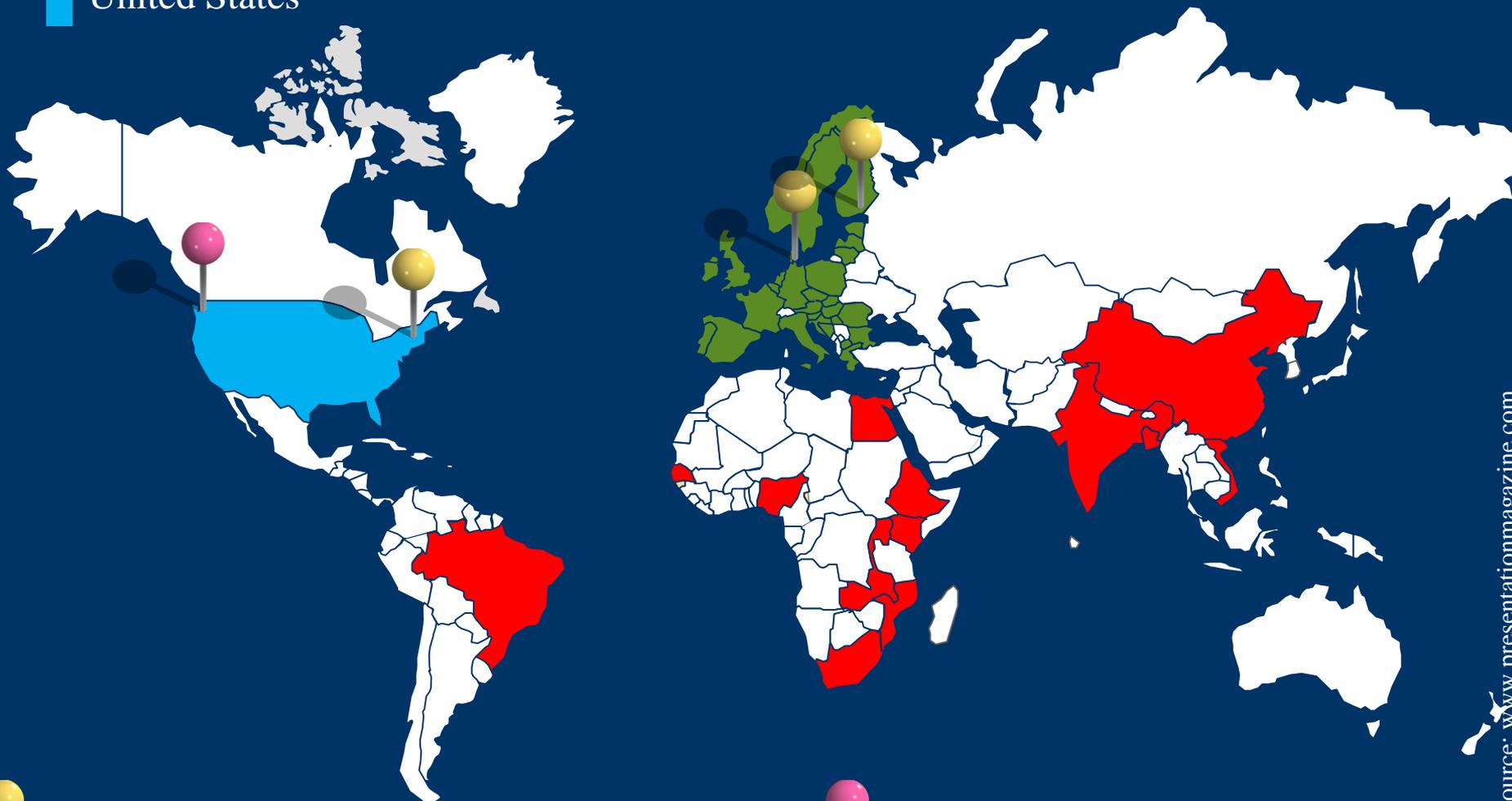
**Seminar/webinar, USAID**

*February 2, 2015*

14 Participating Countries (Bangladesh, Brazil, China, Egypt, Ethiopia, India, Kenya, Malawi, Mozambique, Nigeria, Senegal, South Africa, Vietnam, Zambia)

European Union

United States



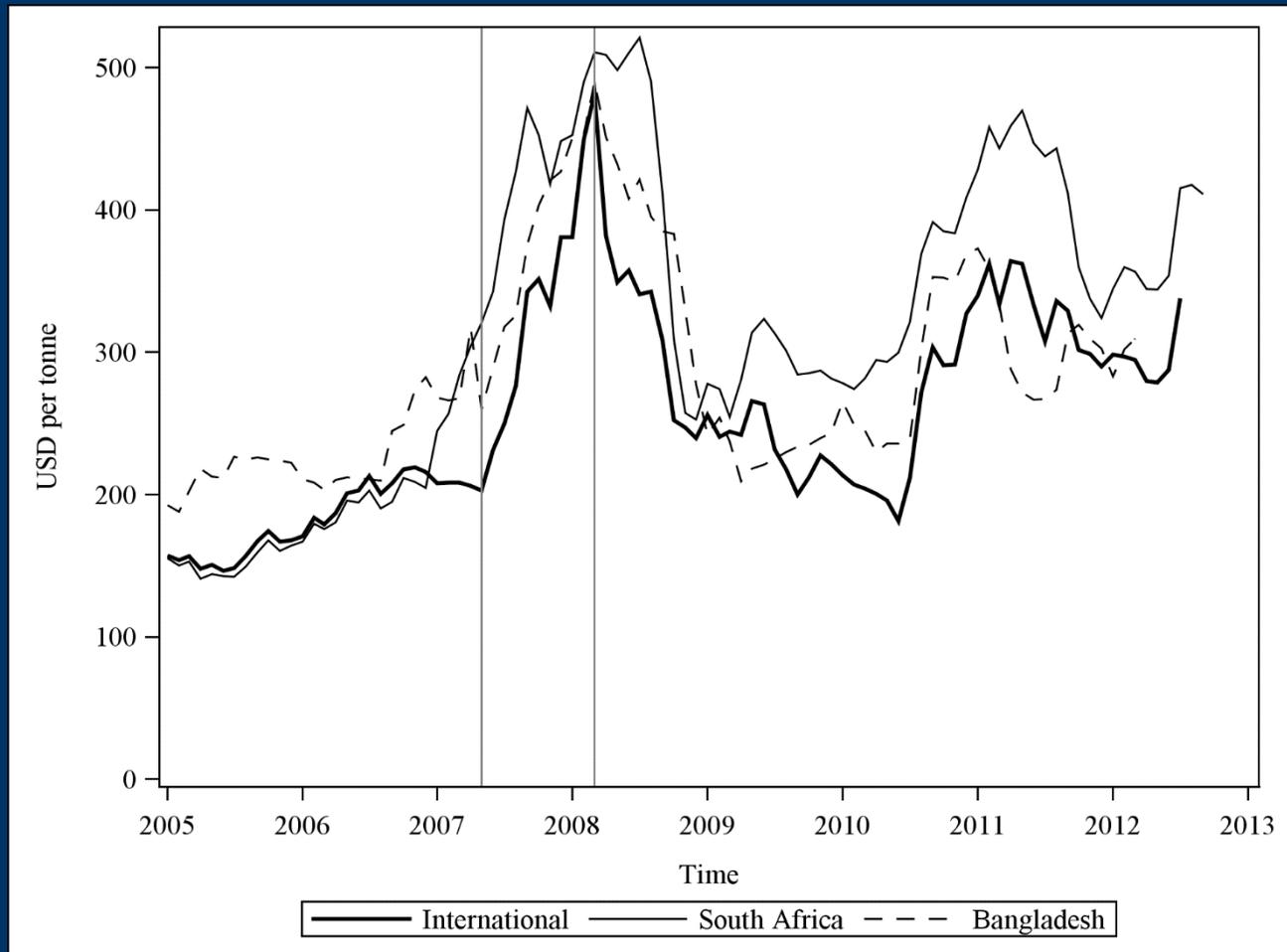
Collaborating Institutions: Cornell University, UNU-WIDER, and University of Copenhagen

Bill & Melinda Gates Foundation

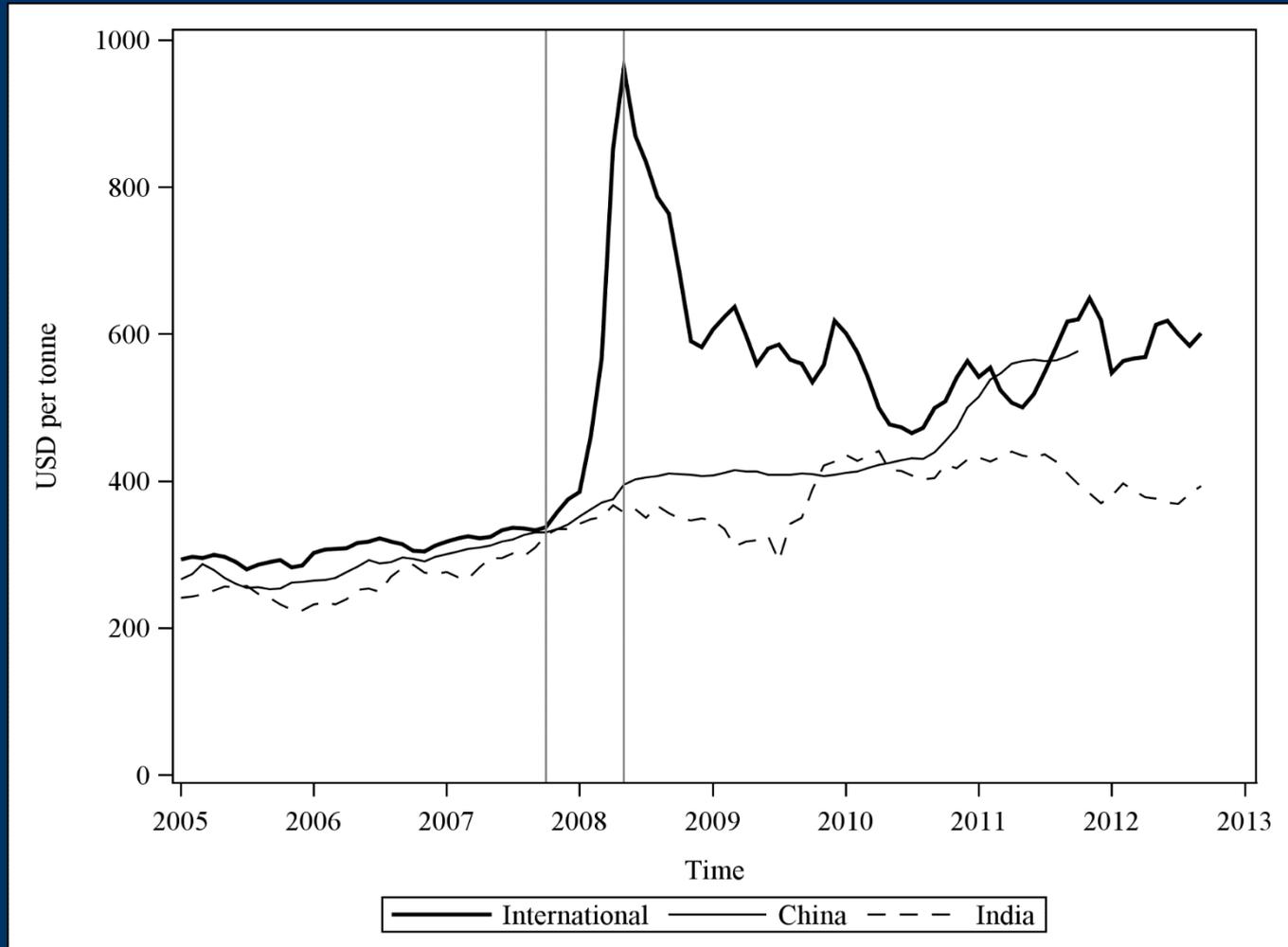


# Were Food Price Fluctuations in the World Market Transmitted to National Markets?

# *Wheat Prices in the World Market, South Africa and Bangladesh, 2005-2012*

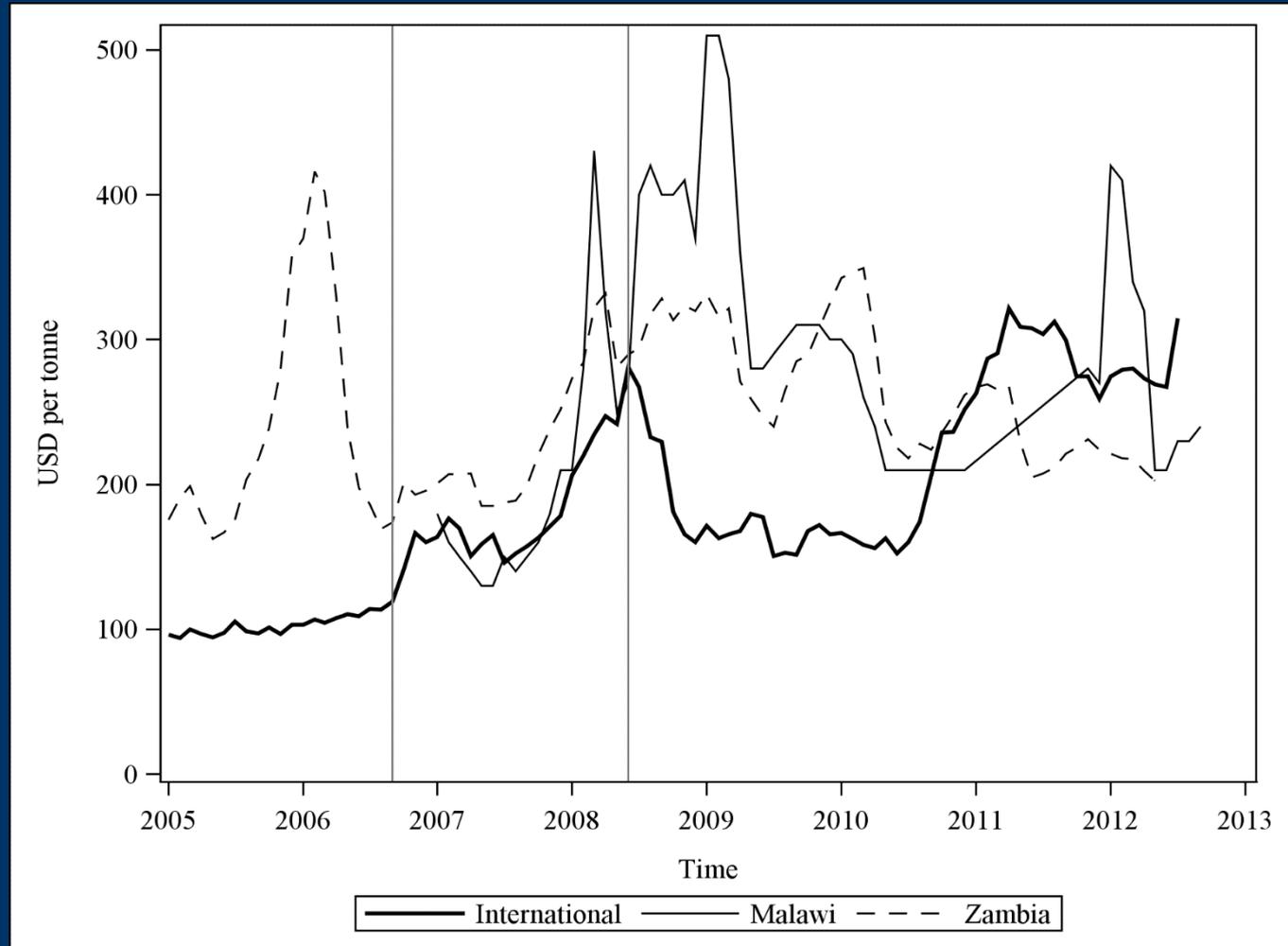


# *Rice Prices in the World Market, China and India, 2005-2012*



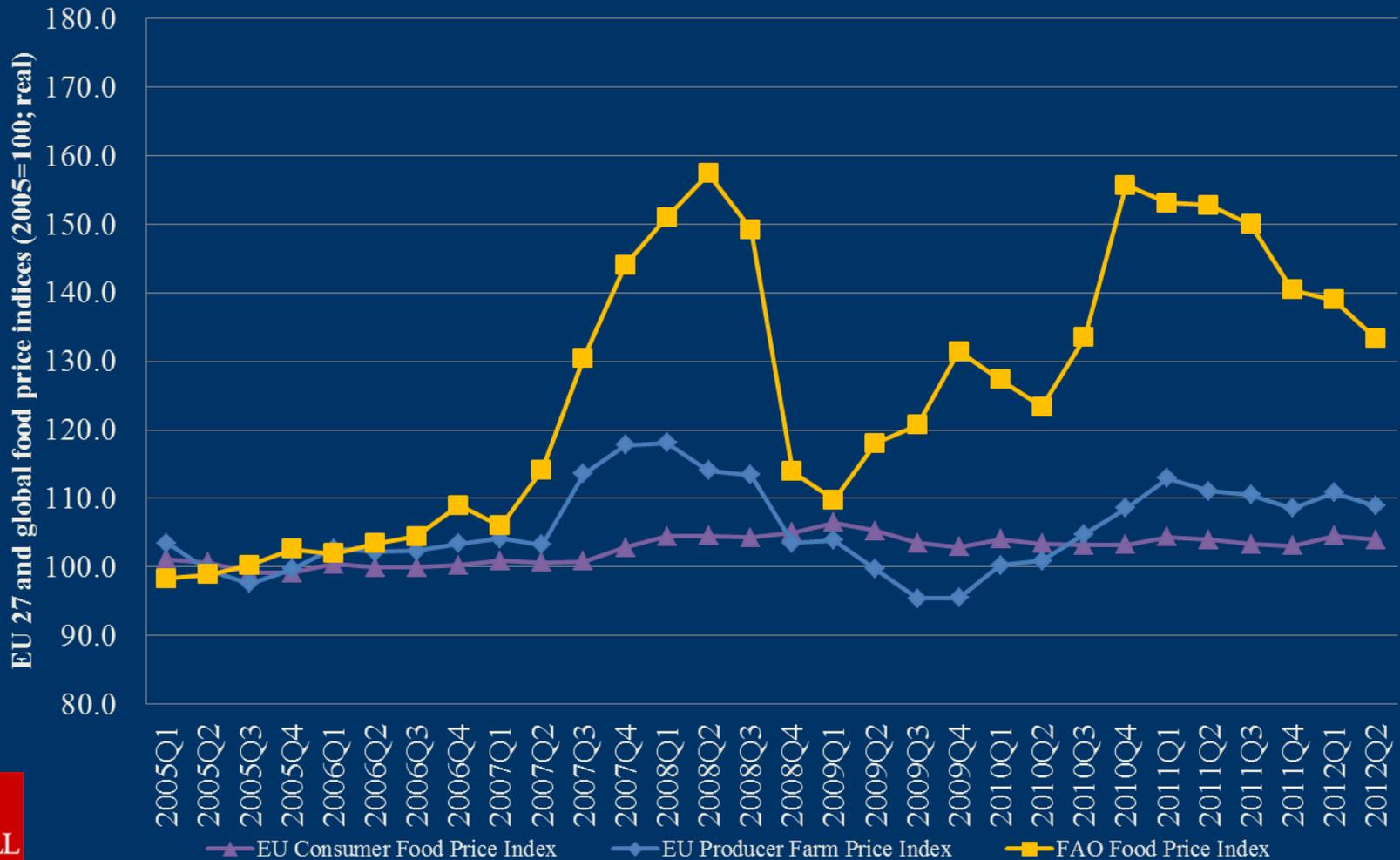
Source: Baltzer (2013)

# *Maize Prices in the World Market, Malawi and Zambia, 2005-2012*



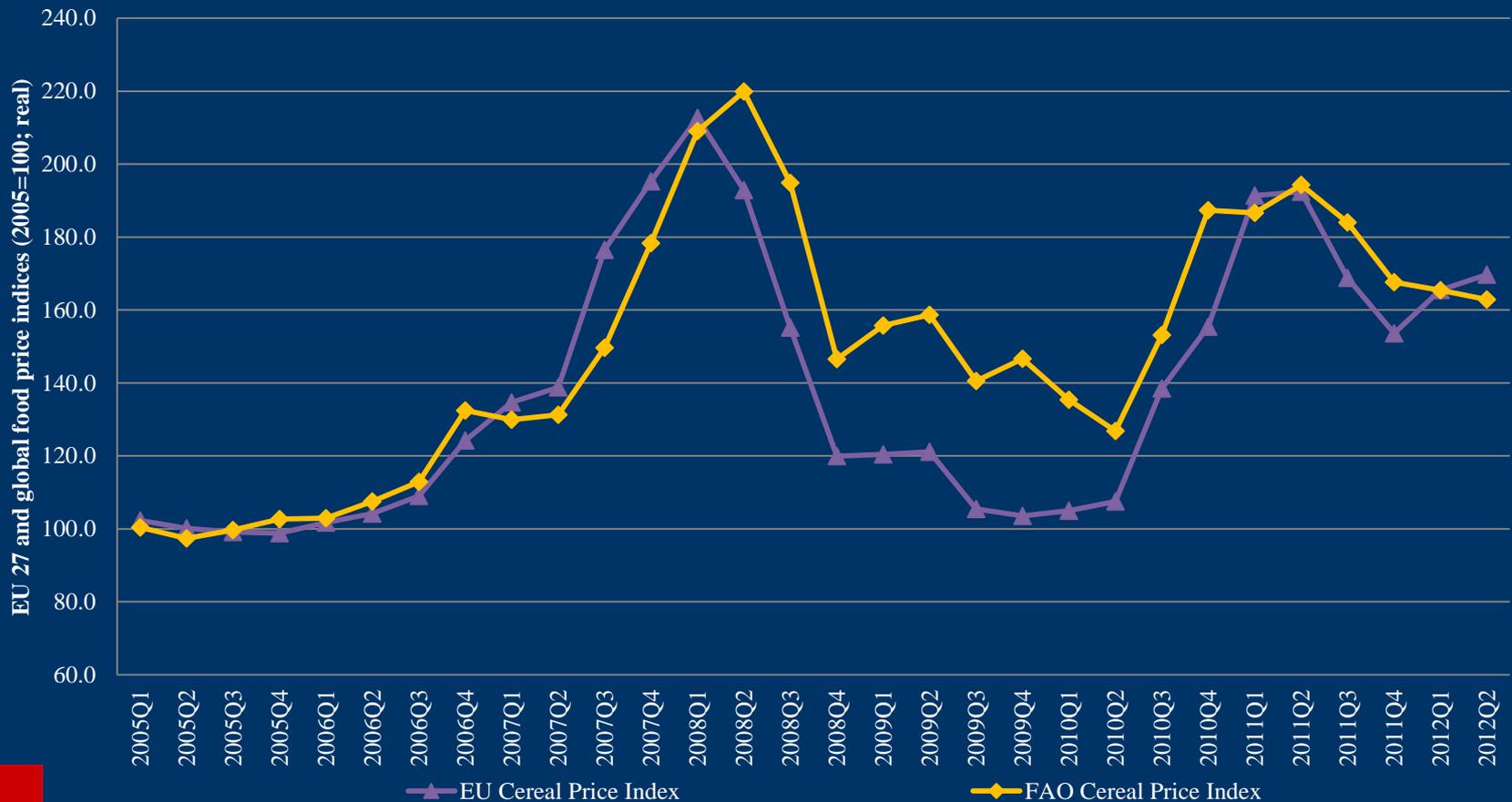
*Source: Baltzer (2013)*

# *Real Food Price Indices in the EU and the World Market 2005-2012 (2005=100)*

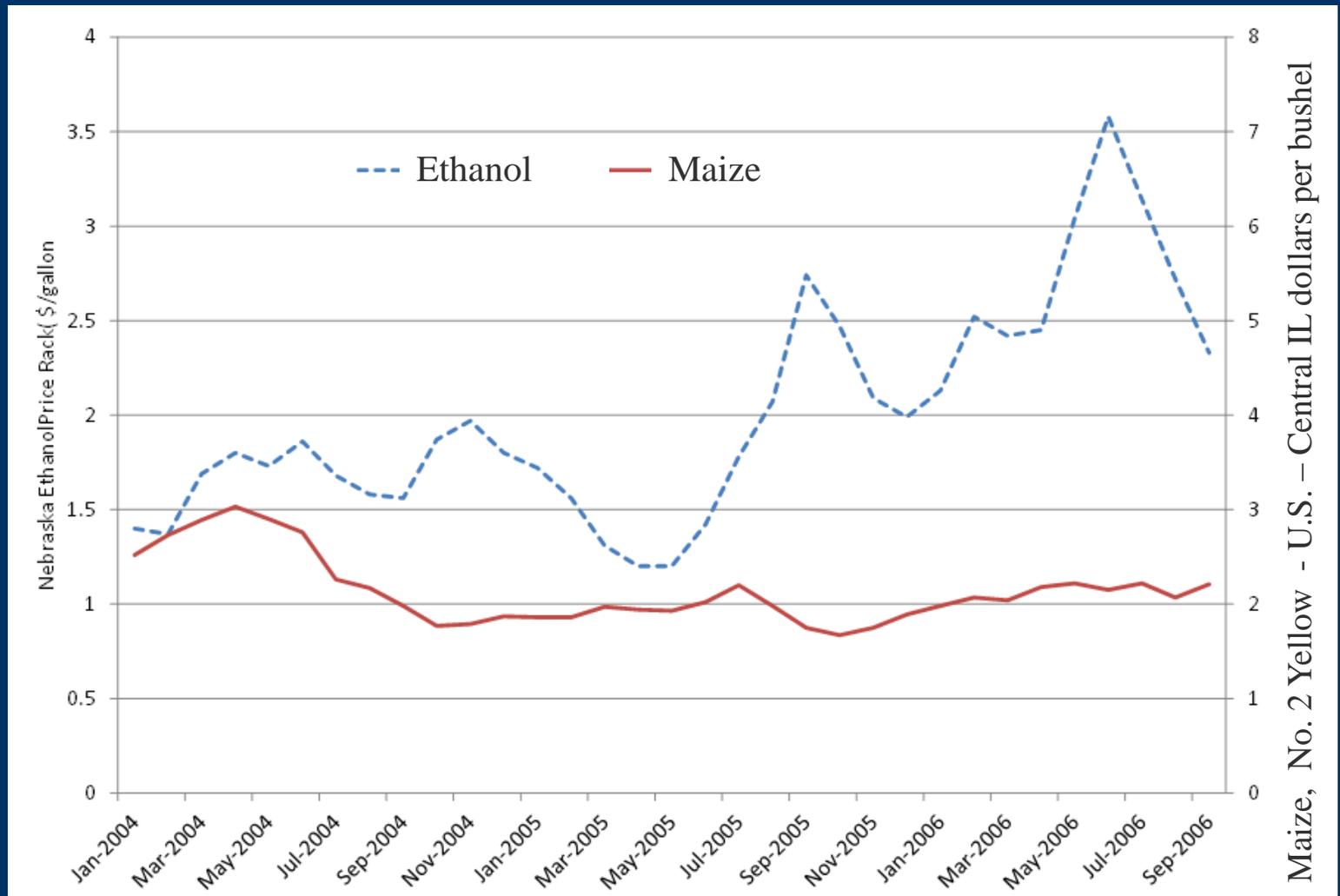


*Source: Swinnen, Knops, and Herck (2013)*

# Cereal Prices in the EU and World Market 2005-2012

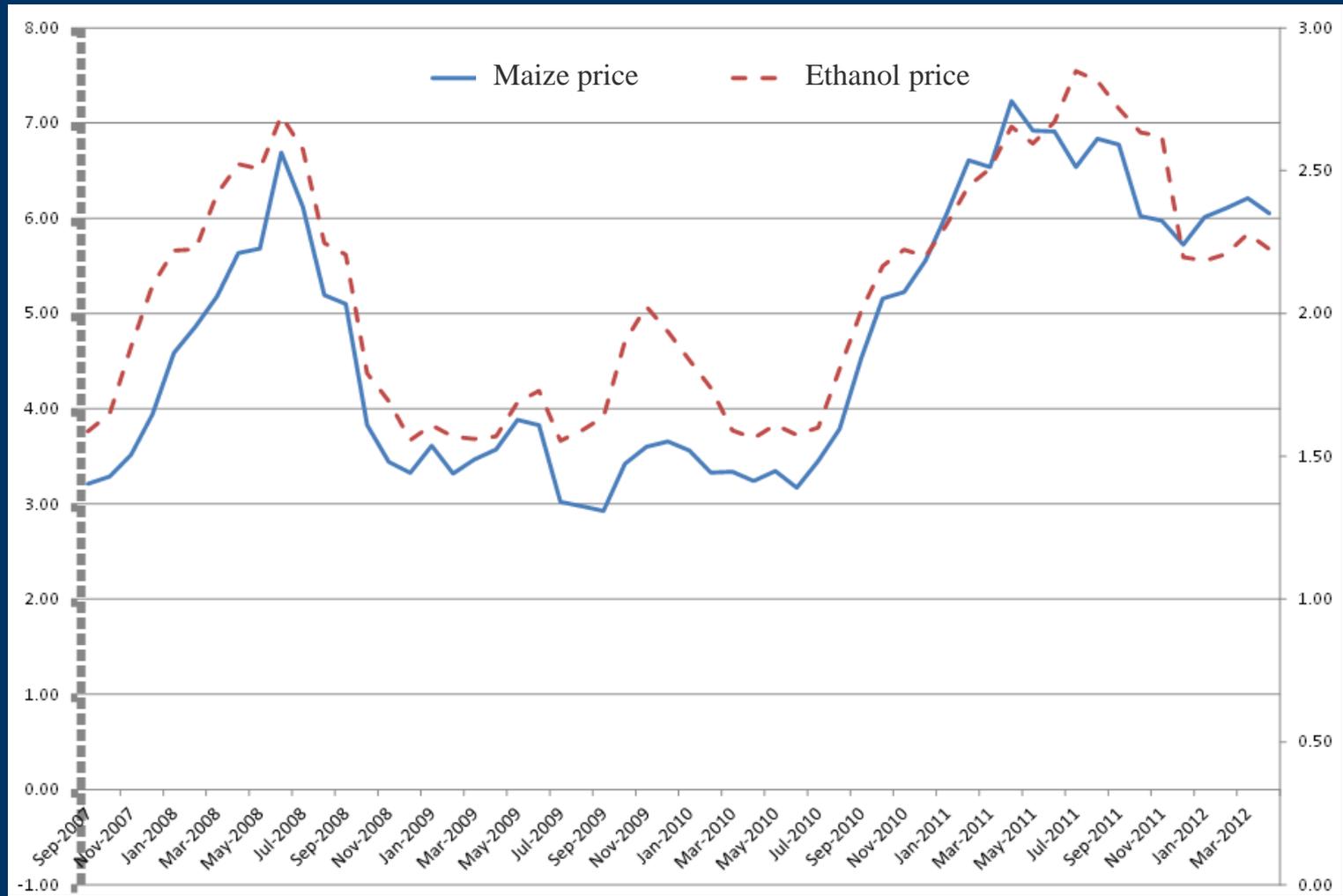


# U.S. Ethanol and Maize Prices, 2004-2006



Source: Rausser and de Gorter (2013)

# *U.S. Maize and Ethanol Prices, 2007-2012*





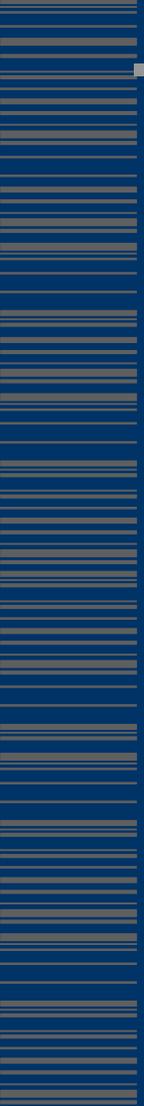
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# Policy Responses: Two Options

1. Decouple world market and domestic prices
2. Compensate losers

# *Decouple world market and domestic prices*

- Trade policies to reduce price transmission
- Direct price control
- Removal of VAT on food
- Short term supply management
- Production expansions



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# Compensation

- Targeted cash transfers
- Targeted or untargeted food subsidies
- Increased public sector wages

# *The Policy Process and Consequences (1)*

1. Ad hoc, delayed action
2. High fiscal costs
  - Revenue losses
    - Export bans
    - Import tariffs
    - Elimination of VAT
  - Program costs
3. Interference with price signal

# *The Policy Process and Consequences (2)*

4. Poor targeting (intentional or not)
  - Transfers, safety nets
  - Food and fertilizer subsidies
5. Corruption
6. Cross-border trading
7. Selective enforcement of export bans
8. Untimely government procurement

# *Political Economy Lessons (1)*

1. Protecting government legitimacy
2. Pursuing domestic policies irrespective of international consequences
3. Unitary government decision-making is unusual
4. Repeating past or expanding current policies
5. Relative power of stakeholder group varied

# *Political Economy Lessons (2)*

6. Increasing urban bias
7. Smallholders versus larger farms
8. Mutual mistrust between government and the private sector
9. Foreign agencies had little influence

# *Lessons for Policy Assistance*

1. Do not assume unitary government decision-making process
2. Expect strong urban bias
3. Expect strong bias in favor of large-scale farming: Rhetoric vs. action
4. The evidence-base for policy decisions is weak
5. Mutual mistrust between public and private sector may be an important hindrance to broad-based economic growth

# Recommendations

- Protect price signals
- Emphasize targeted compensation over price interventions
- Risk management tools for all system agents
- Seek high levels of price transmission
- Seek low levels of trade restrictions

# Recommendations (2)

- Increase supply elasticities for food
- Improve management of cereal stocks
- Seek competitive behavior in supply chain
- Make demand for biofuel input price-related
- Strengthen international agreements regarding exporter behavior
- Improve public-private collaboration

# Sources

- Per Pinstrup-Andersen (Editor). Food Price Policy in an Era of Market Instability. Oxford University Press, 2015.
- [www.wider.unu.edu/foodpricepolicy](http://www.wider.unu.edu/foodpricepolicy)

# Conceptualizing Drivers of Change for Improved Food Security Policies: The Kaleidoscope Model

Danielle Resnick, Suresh Babu, Steven Haggblade, Sheryl Hendriks, and David Mather

USAID Webinar  
February 2, 2015

# Motivations

- Achieving **policy impact** requires a deep understanding of the national **policy process**
- Increased research and initiatives on policy process
  - *UNU-WIDER and Pinstруп-Andersen (2014), Future Agricultures Consortium*
  - *Transform Nutrition, Scaling Up Nutrition, LANSA*
  - *Land Governance Assessment Framework, Land Policy Initiative*
- USAID' s Food Security Project provides opportunity to draw inspiration from, and expand upon, these efforts

# Objectives

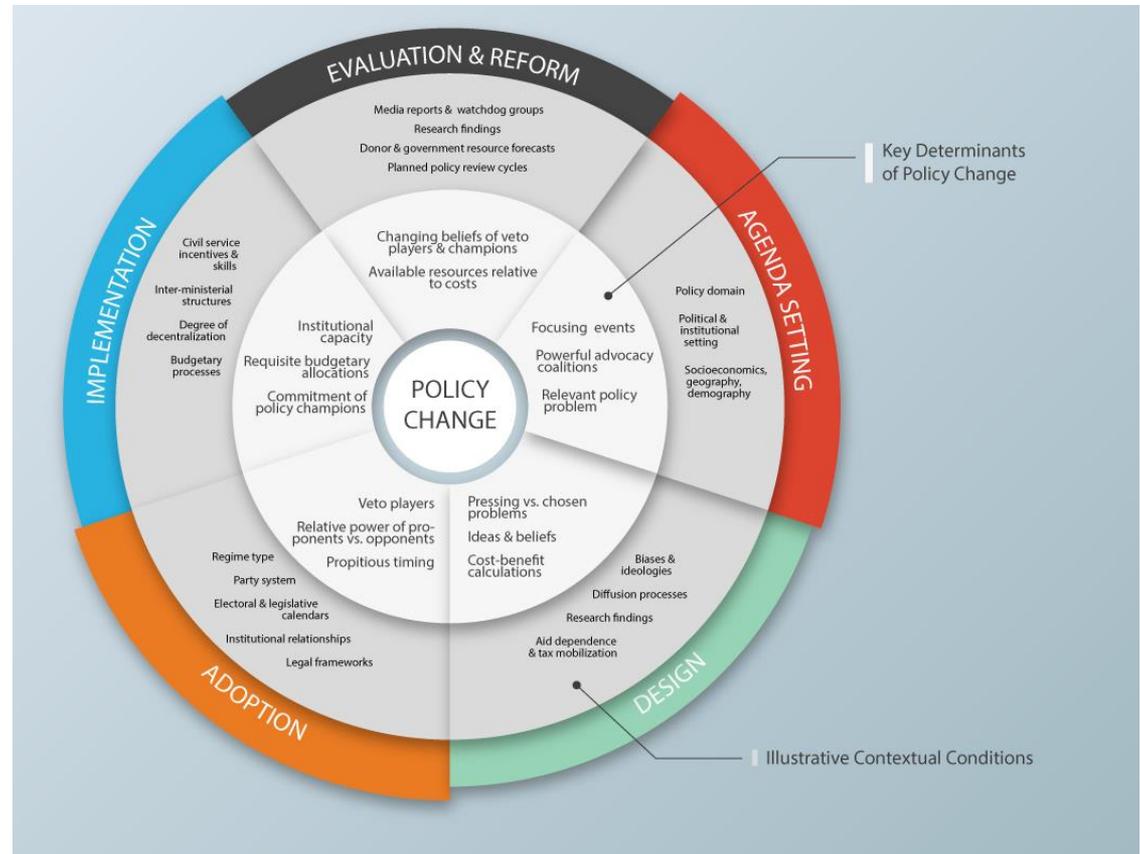
- Offer practical, flexible, empirically-informed model for analyzing policy change in multiple food security domains in very diverse settings
- Integrate theoretical insights from economics, political science, and public administration
- Provide testable framework that simultaneously considers different elements of the policy process and investigates many implicit operational hypotheses of policy change within the policy community
- Better integrate diverse professional communities on issues of policy process

# Approach

- Inductively derived by comparing existing case studies of policy change in developing regions in domains related to food security (*e.g. health, education, agriculture, social protection*)
- Macro variables were identified across cases that were consistently important in explaining why a policy reached a particular stage of the policy process
- Attention given to highlighting necessary and sufficient conditions for policy change to occur

# Kaleidoscope Model

- Aims to explain why some small changes cumulate into major policy changes while others do not
- Emphasizes that each stage of the policy process reveals different constellation of key macro variables



# Brief Application: Ghana's Fertilizer Subsidy Program

## How did the FSP emerge on the agenda?

- **Focusing Event:**
  - 2007/8 food price crisis
  - Forthcoming elections
- **Advocacy Coalition:**
  - President Kufour announced in 2008
- **Relevant Problem:**
  - One of lowest users of fertilizer in Africa (8kg/ha)



# Brief Application: Ghana's Fertilizer Subsidy Program

## What explains the design of the FSP?

### •Pressing vs. chosen problem:

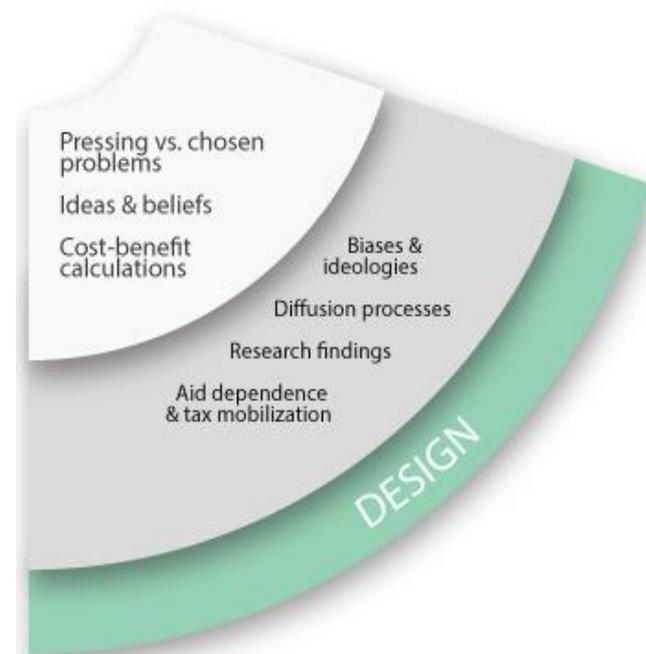
- Pressing problem resulted in initial “off the shelf approach” based on southern African examples and Ghana's history
- Highly visible and quick to roll out through district agricultural officers

### •Ideas and beliefs:

- Reform from voucher to waybill system based on research findings
- Increased reports of late delivery and late payments

### •Cost-benefit calculations:

- Expectation that it will help the incumbent party
- Financial support through sectoral budget support, cocoa and oil revenues



# Brief Application: Ghana's Fertilizer Subsidy Program

## Why is the FSP in the midst of reform?

- **Changing beliefs of veto players and champions:**
  - Evidence (IFDC, IFPRI, NEPAD) that waybill system is cumbersome, delayed payments to importers, most vulnerable farmers not benefitting
  - Ministry of Finance believed to oppose FSP, despite support from civil society and Peasant Farmers Association of Ghana
- **Available resources relative to costs:**
  - Fiscal crisis with rising public debt (high public sector wages, falling commodity prices), negotiating with IMF
  - Fertilizer companies owed GHC 64 million in back payments



# Broader Applications

Policy domain	Policy type	Focusing events	Wicked Problem?	Advocates	Primary stakeholders
<b>Fertilizer subsidies</b> <i>(FTF Priority: Ag inputs policy)</i>	Distributive	<ul style="list-style-type: none"> <li>• Drought</li> <li>• World price spikes</li> <li>• High-level events (Abuja Declaration)</li> </ul>	Yes	<ul style="list-style-type: none"> <li>• Elected politicians</li> <li>• Fertilizer companies</li> <li>• Public figures</li> </ul>	<ul style="list-style-type: none"> <li>• Farmers</li> <li>• Donors, taxpayers</li> <li>• Ministries of finance, agriculture</li> <li>• Fertilizer companies, distributors, transporters</li> </ul>
<b>Micronutrient interventions</b> <i>(FTF Priority: Nutrition policy)</i>	Distributive	<ul style="list-style-type: none"> <li>• High-level international conferences and targets (SUN, MDGs)</li> </ul>	No	<ul style="list-style-type: none"> <li>• Public health practitioners and research community</li> <li>• NGOs</li> <li>• Donors</li> </ul>	<ul style="list-style-type: none"> <li>• Vulnerable populations</li> <li>• Agribusiness firms</li> <li>• Ministries of health, agriculture, finance</li> </ul>
<b>Land tenure reforms</b> <i>(FTF Priority: Land and natural resources tenure, rights, and policy)</i>	Redistributive	<ul style="list-style-type: none"> <li>• Food &amp; fuel crisis</li> <li>• Land grabs</li> <li>• High-level initiatives (LGAF, LPI)</li> </ul>	No	<ul style="list-style-type: none"> <li>• Government officials</li> <li>• NGO community</li> <li>• Research community</li> <li>• Donors</li> </ul>	<ul style="list-style-type: none"> <li>• Smallholders</li> <li>• Commercial farmers</li> <li>• Foreign investors</li> <li>• Ministries of agriculture, land and housing, environment</li> </ul>

# Contributions

- Amenable to operationalization (see Resnick et al. 2015 for details)
- Strong potential for controlled comparative analysis by identifying common drivers of policy change in...
  - similar policy domains across different countries
  - different policy domains within the same country
- Integrates importance of interests, ideas and institutions, as well as the relative weight of external and domestic actors

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### Upcoming Events

Agrilinks Special Event,  
February 26:

“Launch Seminar:  
Livestock Emergency  
Guidelines and  
Standards, 2nd Edition”