

Admassie, Assefa

Working Paper

The political economy of food price: The case of Ethiopia

WIDER Working Paper, No. 2013/001

Provided in Cooperation with:

United Nations University (UNU), World Institute for Development Economics Research (WIDER)

Suggested Citation: Admassie, Assefa (2013) : The political economy of food price: The case of Ethiopia, WIDER Working Paper, No. 2013/001, ISBN 978-92-9230-578-9, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

This Version is available at:

<https://hdl.handle.net/10419/81066>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



UNITED NATIONS
UNIVERSITY

UNU-WIDER

World Institute for Development
Economics Research

WIDER Working Paper No. 2013/001

The political economy of food price

The case of Ethiopia

Assefa Admassie*

January 2013

Abstract

Food prices increased significantly in 2007–08 in Ethiopia due to several supply- and demand-side factors. The Ethiopian government released emergency food grain reserves, imported and distributed wheat at subsidized price, banned the export of staple cereals, and removed value added and turnover taxes on food items. It also increased the reserve requirement of commercial banks and reduced domestic borrowing by public enterprises. These measures were mostly initiated by the government and the role of interest groups as well as local and international actors has been limited. These measures were taken to prevent potential social unrest and maintain macro-economic stability.

Keywords: agriculture, political economy, food price, Ethiopia

JEL classification: E31, E64, E52

Copyright © UNU-WIDER 2013

*Ethiopian Economic Policy Research Institute, Ethiopian Economics Association, email: aadamssie@yahoo.com

This study has been prepared within the UNU-WIDER project on the Political Economy of Food Price Policy, directed by Per Pinstrup-Andersen.

UNU-WIDER gratefully acknowledges the financial contributions to the research programme from the governments of Denmark, Finland, Sweden, and the United Kingdom.

ISSN 1798-7237 ISBN 978-92-9230-578-9



The World Institute for Development Economics Research (WIDER) was established by the United Nations University (UNU) as its first research and training centre and started work in Helsinki, Finland in 1985. The Institute undertakes applied research and policy analysis on structural changes affecting the developing and transitional economies, provides a forum for the advocacy of policies leading to robust, equitable and environmentally sustainable growth, and promotes capacity strengthening and training in the field of economic and social policy making. Work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating scholars and institutions around the world.

www.wider.unu.edu

publications@wider.unu.edu

UNU World Institute for Development Economics Research (UNU-WIDER)
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

Typescript prepared by Lisa Winkler at UNU-WIDER.

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute or the United Nations University, nor by the programme/project sponsors, of any of the views expressed.

1 Introduction

The world experienced a significant increase in the prices of food commodities reaching their highest levels in 2008. The price of major staples such as wheat, maize, and rice doubled or tripled between 2007 and 2008 (FAO 2009; UNCTAD 2008). A combination of factors including export bans, structural and cyclical factors, and developments in international markets have been cited as the main causes of the price increase (Dewbre et al. 2008; Headey and Fan 2008).

There had also been a steady increase in the price of food staples in Ethiopia starting around 2004. For instance, the price of maize in 2008 was 130 per cent higher than the 2004-08 average (FEWS NET 2009). Several policy measures have been initiated by the Ethiopian government starting around 2006 in response to rising food prices. Some of the policy measures include production subsidies, social safety nets for food insecure households, price controls, fiscal measures such as adjustments in tariffs, the release of grains from the strategic reserve, media campaign, and export bans on food products.

The purpose of this study is to assess the rationale for adopting different policy measures and the role of different social groups as well as the likely impact of the policy measures. The study primarily relies on a synthesis of the available policy documents, research reports, newspapers, etc. Some consultations with key experts were also organized to understand the policy processes and the role played by the various stakeholders during the design of the policy measures. Quantitative information on prices, production import and export etc., was collected from the Central Statistical Agency (CSA), Ministry of Finance and Economic Development (MoFED), the National Bank of Ethiopia, and other internet-based sources.

2 Recent developments in the Ethiopian economy and the agricultural sector

Ethiopia, with an estimated population of over 80 million, is the second most populous country in Sub-Saharan Africa next to Nigeria. It is endowed with several agricultural, mineral, and other natural resources. Ethiopia also has one of the world's largest livestock populations. Although its recent economic growth performance has been noticeable, Ethiopia is still at a low level of social and economic development. Its annual per capita GNP is about US\$235 (MoFED 2010). The Ethiopian economy is structurally dominated by agriculture and related activities. Over 90 per cent of the export earnings come from agriculture and related activities including coffee, pulses, and oil seeds.

Economic progress until the beginning of the decade has not been satisfactory. GDP grew by 4.56 per cent between 1991/92 and 1999/00 and by 6.22 per cent between 2000/01 and 2004/05. Then GDP declined by an average of 0.3 per cent per annum between 2001/02 and 2002/03 mainly because of the drop of agricultural output. The performance of the agricultural sector is often dictated by the weather as the Ethiopian agriculture is mostly rain-fed. Real GDP grew at an average rate of 11 per cent for the period 2005/06 to 2009/10 (see Table 1).

Table 1: Growth rates of the different sectors over time

| Period | Agriculture | Industry | Service | GDP | Per capita GDP |
|-----------------------|-------------|----------|---------|-------|----------------|
| 1960/61–2009/10 | 1.87 | 3.83 | 4.91 | 2.96 | 0.04 |
| 1960/61–2009/10 | 2.10 | 7.04 | 7.47 | 3.60 | 1.33 |
| 1960/61–2009/10 | 0.06 | 3.60 | 3.41 | 1.75 | -0.07 |
| 1991/92– 2009/2010 | 4.14 | 7.16 | 8.42 | 6.09 | 3.28 |
| 1991/92– 1999/2000 | 2.11 | 6.38 | 7.99 | 4.56 | 1.78 |
| 2000/01–2004/05 | 5.55 | 8.20 | 6.70 | 6.22 | 3.42 |
| 2005/06–2009/10 | 8.37 | 10.01 | 14.33 | 11.01 | 8.21 |

Source: computed based on data from MoFED.

The share of the service sector, whose growth rate outweighed that of the agricultural and the industrial sectors, was quite significant. Out of the 11 per cent growth for the period, 6.15 per cent (about 55.2 per cent of the growth in GDP) was the share of the service sector. Consequently, the service sector has overtaken the agricultural sector in terms of its share in the overall economy. The industrial sector contributes less than 15 per cent of the national economy and is largely dominated by state-owned agricultural processing and the manufacture of consumer goods enterprises. Value added in the sector grew at 10 per cent over the last five years which was not robust enough to enable the sector gain a significant share in the GDP.

2.1 The relative importance of agriculture in the economy

Ethiopia is endowed with several agricultural, mineral, and other natural resources and is one of the most fertile countries in Africa. The relatively high variations in topography and agro-ecological set-up have given the country the opportunity to be the origin of many plant species. The variation in weather has also provided the country with the opportunity to grow various fauna and flora.

Agriculture directly supports about 85 per cent of the population in terms of employment and livelihood, contributes more than 40 per cent of the country's GDP, generates about 90 per cent of the export earnings, and supplies around 75 per cent of the raw material requirement of agro-based domestic industries (MoFED 2010). It is also the main sector that could provide the necessary surplus capital for industrial development in Ethiopia. The contribution of the sector to growth has declined from about 42 per cent in 2004/05 to 33 per cent in 2009/10 (EEA 2011).

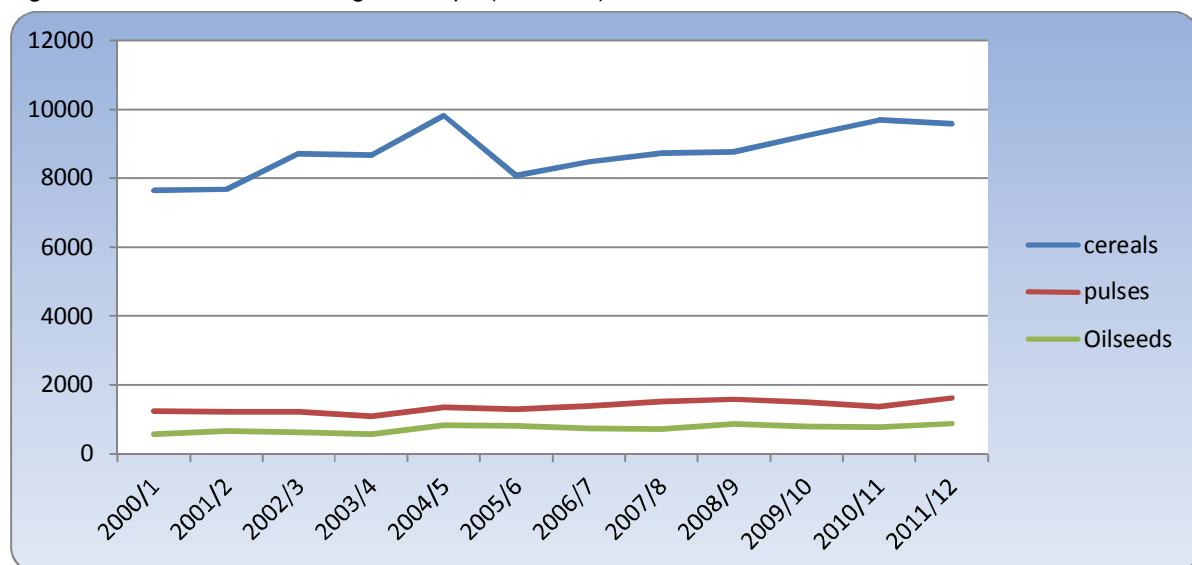
2.1.1 The structure of the agricultural sector

Mixed subsistence farming systems which combine crop and livestock production characterize the Ethiopian farming system. Although, potential exists for increased production of flowers, oilseeds, vegetables, and fruits and livestock, cereal production contributes more than 60 per cent to agricultural GDP (Mulat, Fantu, and Tadele 2007). The most important field crops grown in

Ethiopia are maize, teff¹, wheat, and sorghum² while coffee is the major agricultural export crop. Ethiopia has the largest population of livestock in Africa, which contributes 12–16 per cent to the total GDP and 30–35 per cent to the agricultural GDP. Although estimates show that more than 50 per cent of the country’s landmass is arable land (Access Capital 2012), only a limited portion of the arable land potential is put under agricultural use. The total area of cultivated land had increased from 9.44 million ha in 2000/01 to 12.88 million ha in 2009/10 (see Figure 1).

More than 70 per cent of the cultivated land is under cereals, the most important field crops being maize, teff, and wheat. Besides, cereal production is the main sub-sector in terms of its share in rural employment, agricultural land use, calories intake, and contribution to national income. Hence, the sub-sector has always influenced the agricultural policy-thinking of the Ethiopian political regimes. Coffee took only 3.1 per cent of the total cultivated land in 2010, although the commodity has a big potential to generate foreign exchange earnings from export trade. Pulses account for 11 per cent followed by 6 per cent for oilseeds. Vegetables and root crops occupy a minute portion of the cultivated land by smallholders, i.e. 1.1 per cent and 1.6 per cent in 2010, respectively.

Figure 1: Land cultivated with grain crops (2001–12)



Source: computed by the author based on data from the Central Statistical Agency, Annual Agricultural sample surveys (2001–12).

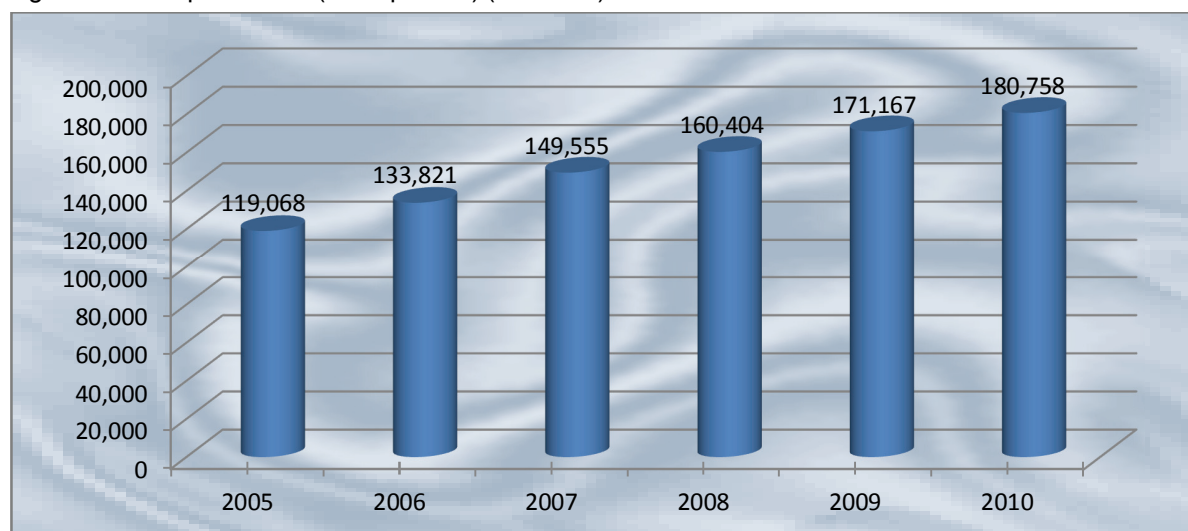
¹ *Eragrostis tef* known as teff is an annual fine grass that is widely cultivated and consumed in the Ethiopian highlands.

² *Sorghum* is one of the most important staples cereals widely grown in Ethiopia and is used for grain, fiber, and fodder.

2.1.2 Trends in production levels of major food grains

The production of food gains is mainly dominated by smallholders with average land holding of less than 1 ha. Total cereal production was 10.0 million tons in 2000/01, which declined to 7 million tons in 2002/03 due to drought. Then it grew and reached 18 million tons in 2010, showing a growth of more than 155 per cent compared to the 2002/03 production year (see Figure 2).

Figure 2: Grain production ('000 quintals) (2005–10)



Source: computed by the author based on Central Statistical Agency, Annual Agriculture Sampe Surveys (2005–10).

The trend shows that sorghum grew by 7.7 per cent, teff by 7.1 per cent and wheat by 6.2 per cent per year between the year 2000/01 and 2008/09. Seyoum Taffesse (2008) cited in Dercon and Hill (2009) indicated that cereal production increased by more than 12 per cent per year within the period 2004/05 to 2007/08. Although cereal production constitutes more than 70 per cent of the total production, the largest proportion of cereal production (estimated at about 80 per cent) goes for household consumption while a very small proportion is marketed. On the other hand, the sale of permanent crops and oilseeds (e.g. coffee, chat³, sesame) is relatively higher due to the fact that they are cash crops and have high market demand (CSA 2010).

Although cereal production constitutes more than 70 per cent of the total production, the largest proportion of cereal production (estimated at about 80 per cent) goes for household consumption while a very small proportion is marketed. On the other hand, the sale of permanent crops and oilseeds is relatively higher due to the fact that they are cash crops and have high market demand (CSA 2010).

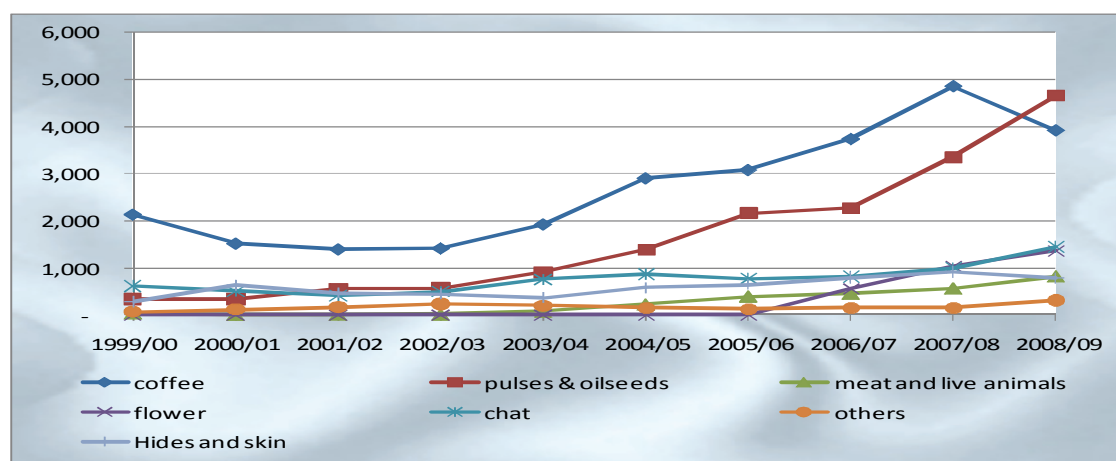
³ Chat (*Catha edulis*) is a shrub whose leaves are used as a mild stimulant when chewed or brewed as tea.

2.1.3 Share of agricultural commodities in imports and exports

The agricultural export commodities of Ethiopia are composed of few major commodity groups with only few of them having gone through a value added process. As shown in Figure 3, two major groups of commodities—coffee and pulses and oil seeds contribute the most to agricultural export earnings. While coffee used to contribute about 60 per cent of the total value of agricultural export in 2008/09, its share decreased to about 30 per cent and the contribution of pulses and oilseeds significantly increased more than threefold during the decade. The share of chat in total agricultural export value declined from about 18 per cent in 2003/04 to 10 per cent in 2008/09, while the share of meat and livestock has changed only slightly from 4 per cent in 2004/05 to 6 per cent in 2008/09. Earnings from cut flowers significantly increased and became the third largest foreign exchange earner almost equal to earnings from chat over the last few years.

Ethiopia also exports other agricultural and non-agricultural commodities including livestock, leather and leather products, chemicals, gold, pulses, oilseeds, fruits and vegetables. On the import side, Ethiopia imports semi-finished goods, capital goods, and fuel whose share increased by 2 percentage points each between 2004/05 and 2010/11 partly due to rises in import prices of fuel and fertilizer. The import of cereals has also increased during the food crises in 2007–08.

Figure 3: Value of export of agricultural and related products (million birr)



Source: computed based on data from the Customs Authority (2000–09).

2.2 Ethiopia's dependency on food aid

Due to the frequent shocks related to weather conditions, Ethiopia is forced to depend on massive food imports both in the form of food assistance and commercial imports. Each year 6–8 million chronically food insecure Ethiopians require food transfers to avoid severe malnutrition (WFP 2009). Between 2005/06 and 2008/09 Ethiopia's food import bills increased fourfold from around 2 billion birr to 9 billion birr.

On the average, cereal took the lion's share of the total food import. Commercial import was dwarfed by food aid imports until 2008 after which it increased dramatically due to the increased

import of wheat by the government to stabilize prices (see Table 2). Since 1996, a system of local food aid purchase has been put in place for stimulating local grain producers in the high potential areas.

During the period 2004–06, total local purchase of maize by donors was about 79,000 metric tonst (mt)/year, but it substantially decreased after 2006 because of the high cereal prices in the domestic market. For instance, the World Food Programme (WFP) local procurement which was as high as 151,000 tons of maize and wheat in 2006 dropped to zero since 2007 in the case of wheat and small quantities in the case of maize (Rashid 2010). On the average, food aid import of wheat accounted for nearly 96 per cent of total wheat import in 2004–07 and 61 per cent in 2008–09.

Table 2: Import of wheat to Ethiopia (mt)

| Particular | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|----------------------|---------|---------|---------|---------|-----------|---------|
| Commercial import | 18,958 | 20,000 | 20,000 | 20,000 | 545,325 | 308,295 |
| Food aid import | 445,090 | 808,077 | 266,519 | 434,025 | 814,140 | 504,895 |
| % commercial imports | 4.09 | 2.42 | 6.99 | 4.41 | 40.11 | 37.91 |
| % food aid import | 95.91 | 97.58 | 93.01 | 95.59 | 59.89 | 62.09 |
| Total import | 464,048 | 828,077 | 286,519 | 454,025 | 1,359,465 | 813,190 |

Source: Computed based on data from Customs Authority (2004–09) and WFP (2012).

2.3 Market channels and degree of integration

Grain marketing has been liberalized since 1990 in which restrictions on private inter-regional trade were lifted and fixed prices were eliminated. Several market players including producers, rural assemblers, brokers, wholesalers, exporters, co-operatives and unions, retailers, and consumers have been created. The small scale farmers usually sell their small surplus produce within short distances either by carrying sacks themselves or using donkeys (Eleni and Ian 2005; RATES 2003). The rural assemblers or local collectors collect grains from smallholder farmers in their respective villages and transport it to the regional markets using horse-driven carts, pack animals, as well as small tracks.

Different types of wholesalers including private companies and the Ethiopian Grain Trade Enterprise (EGTE) are also important market players. They are engaged in large volumes of grain purchase from various sources such as smallholders and rural assemblers and they sell to different market outlets including Addis Ababa (the central market), retailers, and consumers. Most grain traders operate through specialized brokers, mainly located in Addis Ababa where large volumes of grains from surplus areas transit towards terminal markets in deficit areas. Co-operative unions buy grain from their members and sell it to wholesalers, donors, NGOs, etc. There are also few flour mills that use mainly maize and wheat as a raw material. Finally, the retailers deliver the grains to the final consumers.

Access to markets, especially for dispersed and remote rural communities, is often limited by poorly developed transport infrastructures. As a result, transport costs are a significant element in the determination of the final market price and represent the major share of the price differential existing between surplus and deficit markets (Rashid 2010). Market access is also determined by

the availability of reliable and timely information. The rapid and growing diffusion of mobile phones is the most remarkable change in the price information management system.

3 Recent staple food price trends and policy responses

In Ethiopia, food production trends greatly affect staple food prices, which tend to rise during drought years and during the lean seasons (June–October) when most households run out of their own produced food stocks. Consequently, due to several drought episodes and seasonality of agricultural production, the country had experienced several food price rise episodes and food price formation regimes have changed several times in the past with significant food security challenges. The drought episodes of 1974/75 and 1984/85 had significant implications on staple food prices. In recent times, three periods where food prices have shown erratic behaviour could be identified; the first being the period between 2000 and 2004, the second from 2004 until end of 2008, and the last after 2009.

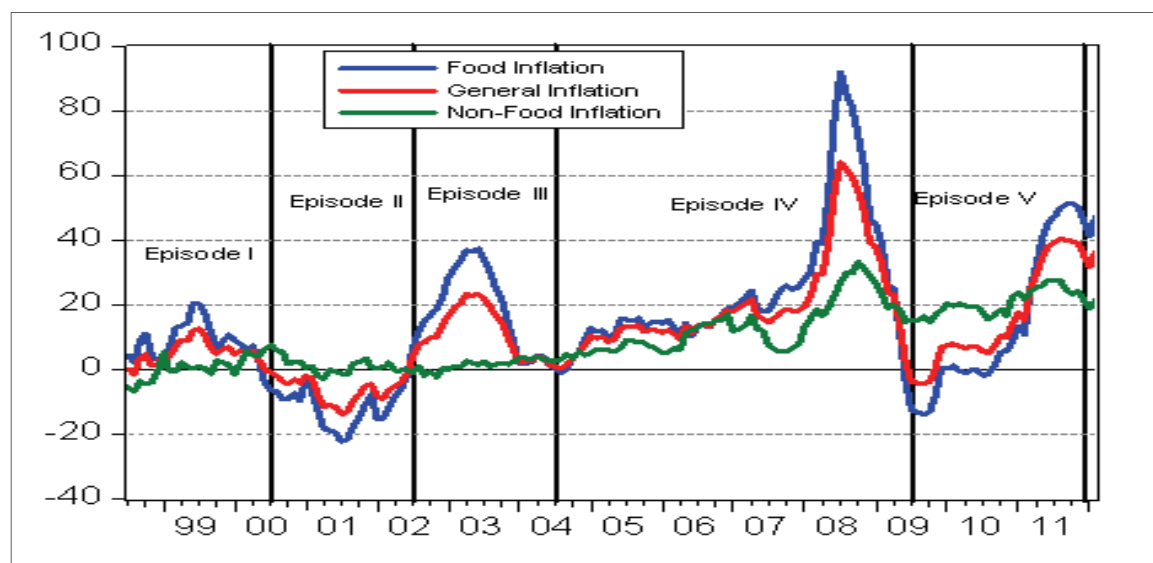
3.1 Food price developments between 2000 and 2004

Traditionally, Ethiopia has been generally a country with low inflation rates, and food inflation has not been a major challenge. For instance, the average month-to-month annualized cereal inflation before 1998 was hovering around 1 per cent. Several factors, such as prudent monetary and fiscal policies, general price controls, as well as the implementation of economic reform and stabilization programmes, have contributed to this.

In terms of food price developments, the last decade can generally be broadly categorized into five major episodes. Episode I represents the period from July 1998 to July 2000 that was characterized by the Ethio-Eritrean war and localized drought in some parts of Amhara, Tigray, Somalia, and Oromia regions. Relatively higher food prices were observed between 1999 and 2000 (see Figure 4). Episode II covers the period from July 2000 to July 2002, where the Ethio-Eritrean war was over and bumper harvest was produced. Deflationary situations were observed during this period partly due to the bumper harvest and partly due to the slow demand recovery from urban centres due to slow business activities in the aftermath of the Ethio-Eritrean war.

Episode III captures price developments between August 2002 and July 2004. One of the recent drought that forced about 14 million people to look for food aid occurred during this period. The drought led to a 3.3 per cent decline in GDP in 2003 (EEA 2004). Weak and poorly functioning marketing and distribution systems and poor policy co-ordination were additional challenges. The Ethiopian government established a Disaster Prevention and Preparedness Commission and also formulated a National Policy for Disaster Prevention and Preparedness, as well as a Food Security Strategy. In addition, the Emergency Food Security Reserve and the New Coalition for Food Security Programme were established towards the end of 2003 in collaboration with the donors.

Figure 4: Inflation and time line of incidences



Source: computed using data from the Central Statistical Agency, general consumer price index (2000–11.)

3.2 Food price developments between 2004 and 2008

The period from August 2004 to July 2009 is captured by Episode IV, which was characterized by the 2007–08 global food price crises and the world financial and economic crisis. As pointed out earlier, Ethiopia was one of the countries with modest inflation rates except during drought and war periods. But, the story started to change after around 2004 and Ethiopia started to experience high rates of inflation. Towards the end of 2004 and well before the rise in international food prices, nominal prices of grains started to rise in the Ethiopian markets as a result of strong demand- and supply-side factors.

Increased private consumption and increased investment on poverty oriented sectors and improved purchasing power of farmers due to the injections of cash into the local economy through the Productive Safety Net Programme (PSNP) and microcredit services may explain the growth in aggregate demand. Supported by improved market information systems, road infrastructures, and storage facilities, farmers have gradually changed their trade practices, being able to hold some stocks in anticipation of better market opportunities. Increased remittances could be another important factor on the demand-side. On the supply-side, despite the good harvests obtained in the last several years, the amount of food marketed has not increased as expected. Household surveys complemented with market and cross border trade surveys as well as analysis of large amount of time series data have shown that the production estimates of cereals was roughly 30 per cent lower than the official estimates (Minot 2008). That is probably the main reason why the country did not see a large increase in the amount marketed. Some parts of the country were also affected by drought.

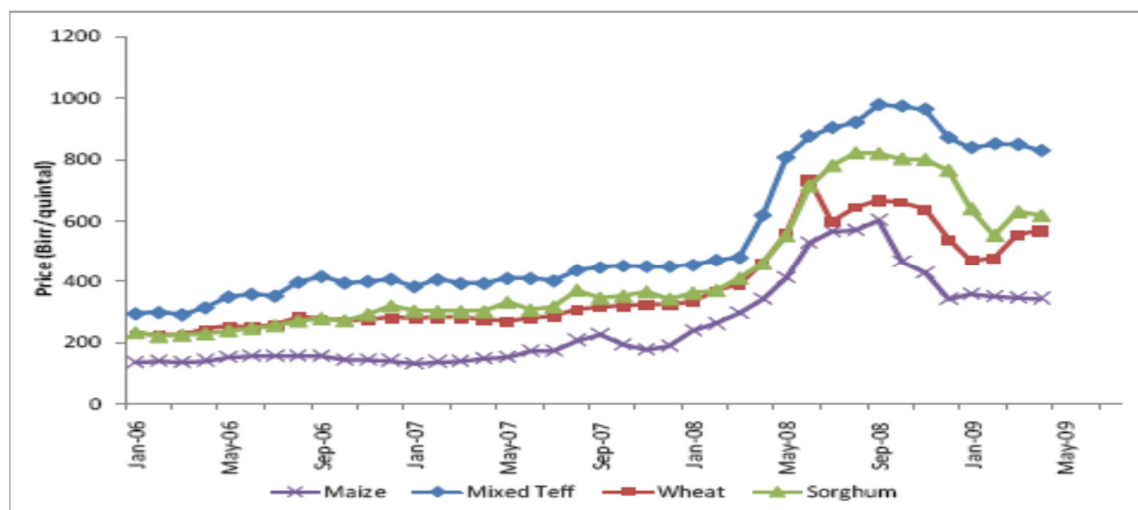
Expansionary monetary policy, driven by a significant growth in money supply needed to meet the surge in credit demand for investment financing, the rising cost of imported intermediate

inputs have also contributed to the increase in food prices. A World Bank (2007) study argued that during 2004–06, the money supply increased by 108 per cent, and real GDP increased by 48 per cent which means growth of money supply was 60 per cent faster than GDP growth. In addition, the unit price of imports of petroleum soared by 145 per cent while the unit price of fertilizer increased by 254 per cent together and had a share of 33 per cent in the total import bills. Prices of imports of food items including grain have also increased by 55 per cent.

Ethiopia had a national election in 2005 which was followed by serious controversies. Reduced budget supports by donors to the government due to disagreements on the handling of the post-election events and some social unrest following the election have contributed to the market instability. The government increased money supply to fill the gap created by the withdrawal of the donor support and finance projects. Therefore, narrow money expanded significantly during 2007 and 2008. In particular credit advanced to the public enterprises increased significantly.

Consequently, the cumulative effect of these developments started to kick in and prices of food grains started to rise to double digits around 2005. The general inflation rate reached 12 per cent in 2006 resulting from a strong upward pressure on food (14 per cent), and non-food prices (7 per cent) (CSA 2010). The average month-to-month annual inflation for food and cereals during 2007–08 was 41 per cent and 58 per cent, respectively. The overall annual inflation rate accelerated reaching an average rate of 46.1 per cent (based on 12-month moving average), while the national food inflation reached a record rate of 61.1 per cent in mid-2008. The food inflation rate in November 2008 stood at record 58.7 per cent, with an increase of 37.4 per cent if compared to the same month in 2007.

Figure 5: Nominal wholesale price of cereal (Addis Ababa)



Source: computed based on data from the Central Statistical Agency, general consumer price index (2006–09).

The rise in inflation was strongly influenced by the food component of the consumer price index (CPI) as food items take up about 57 per cent of household expenditure. While the price for non-food items rose by 27 per cent food prices tripled and cereal prices more than doubled between 2007 and 2008. The upsurge in prices in 2008 was typically noticeable, the period during which

food and general prices soared by 92 per cent and 64 per cent, respectively. The cereal price index, whose share in the CPI is estimated to be about 23 per cent, increased by about 172 per cent between March and September 2008 (see Figure 5).

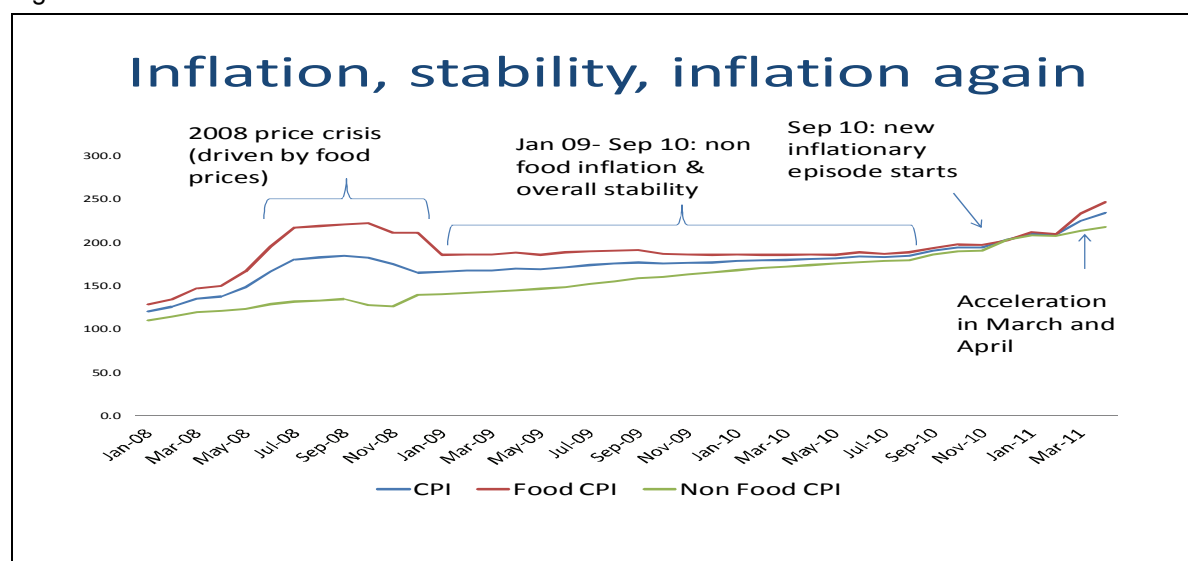
The nominal prices of grains show dramatic increase between June 2007 and June 2008. Similarly, between April and August 2008, nominal retail prices of wheat, teff and sorghum, and maize increased by 60 per cent, 80 per cent, and 90 per cent, respectively. Real staple food prices increased significantly in the 2007–08 period as well. The real maize price rose by about 80 per cent, real teff prices about 40 per cent, and real wheat prices by about 20 per cent around March and April 2008.

3.3 Food price developments after 2008

The last period representing the period starting around July 2009 and extending to the present is represented by Episode V in Figure 4. Several food price stabilization measures and strict monetary and fiscal measures were put in place to lower the rampant inflation. The National Bank imposed a credit ceiling on private bank lending in early 2009 with the intention of curbing food and general inflation. In May 2009 food inflation stood at 52.6 per cent, a decline of 8.5 percentage points since climbing to the record rate in 2008. Cereal prices started to decrease marginally also due to the arrival of the harvested crop on markets. In December 2009, the food inflation rate declined to about 6.1 per cent. However, while the food component of CPI inflation has been declining fast, the non-food component of CPI inflation declined from 21.9 per cent by the end of December 2008 to only 18.2 per cent by the end of December 2009 (CSA 2010).

The declining trend in inflation was again reversed due to other policy interventions like the 20 per cent devaluation of the Birr against the US\$ in September 2010 (see Figure 6). The government also established price caps on essential food items which significantly destabilized the market and prices started again to rise. Accordingly, the month-to-month annualized general, food and non-food inflation for May 2011 stood at 34.7 per cent, 40.7 per cent, and 26.2 per cent, respectively (EEA 2011). The government borrowing from the central bank as well as the significant increase in foreign exchange earnings also contributed to the rise.

Figure 6: More recent trends in inflation



Source: computed based on data from the Central Statistical Agency, general consumer price index (2008–11).

3.4 Regional price trends for major food staples

A steady increase in food prices has also been observed in all regions of Ethiopia. In 2008, all the regions of Ethiopia experienced the highest inflation rates (see Table 3). Some of the regions experienced much higher food inflation rates than the national average. The region of Harari (71 per cent), Dire Dawa (60 per cent), Gambella and Tigray (58 per cent) experienced the highest food inflation rates in 2008. After declining fast in 2009 and 2010, food inflation again picked up significantly in all regions and actually reached the 2008 levels; Benishangul Gumuz region recording the highest inflation in 2011. Often the different regions exhibit different food price trends. Usually Addis Ababa, Amhara, and Oromia markets share similar food prices trends suggesting greater integration of markets in Amhara and Oromia with Addis Ababa.

The heterogeneity of regional food prices is partly explained by the limited regional market integration due to inadequate infrastructure and undeveloped food markets, restricting trade between food surplus and food deficit regions (World Bank 2007). However, the study acknowledges that market integration in Ethiopia has not been conclusively established. In addition, weather conditions leading to differences in the performance of the agricultural sector across regions may explain some of the price heterogeneity across regions (Ulimwengu, Workneh, and Paulos 2009). In addition, this study did not find evidence of significant market integration among most Ethiopian regional maize markets.

Table 3: Food inflation in regions of Ethiopia in per cent

| Region | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------|------|------|------|------|------|------|------|-------|------|
| National | 8.4 | 9.6 | 14.9 | 19.0 | 24.7 | 47.8 | 0.7 | 8.9 | 46.5 |
| Tigray | -1.1 | 10.9 | 16.5 | 8.7 | 30.8 | 58.1 | -4.6 | -2.3 | 37.7 |
| Somali | -1.8 | 9.0 | 17.8 | 11.1 | 11.5 | 53.0 | 17.1 | 24.8 | 27.3 |
| SNNP | 6.8 | 10.0 | 16.2 | 22.9 | 17.0 | 48.3 | 5.0 | 8.3 | 51.3 |
| Harari | 5.4 | -1.4 | 19.8 | 17.5 | 16.2 | 71.0 | 5.2 | 15.4 | 44.9 |
| Oromia | 3.8 | 11.3 | 14.8 | 21.8 | 25.9 | 46.1 | 0.3 | 12.1 | 48.3 |
| Gambella | 5.8 | 19.6 | 9.4 | 17.5 | 26.6 | 58.6 | 0.0 | 7.2 | 55.6 |
| Benishangul | 23.8 | 10.6 | 1.1 | 14.5 | 39.1 | 54.6 | -4.3 | -12.3 | 92.9 |
| Dire Dawa | 3.9 | 2.9 | 16.3 | 13.7 | 23.3 | 60.4 | -1.3 | 12.4 | 34.0 |
| Addis Ababa | 8.5 | 6.9 | 12.6 | 26.4 | 23.2 | 50.0 | 6.5 | 12.0 | 27.9 |
| Afar | 9.3 | -0.6 | 10.3 | 18.4 | 27.8 | 41.0 | 14.9 | 7.6 | 35.9 |
| Amhara | 17.9 | 9.0 | 13.3 | 17.0 | 32.2 | 44.3 | -4.0 | 5.8 | 46.5 |

Source: compiled based on data from the Central Statistical Agency, general consumer price index (2003–11).

3.5 Price transmission from international market to the domestic markets

The price developments in the international market could have significant impact on local food prices if a country is highly integrated to the international market. However, according to Minot (2010) there could be a short-term transmission of only 8 to 9 per cent of the change in international prices to local markets in Sub-Saharan Africa. In the case of Ethiopia, while the developments in the international markets may have some impact on the local prices, the rising world food prices do not appear to have major implications on the domestic prices of food staples, as is the case in many other countries. Several logical reasons could be cited to support this argument. First, Ethiopia is a relatively closed economy where imports are not more than 25 per cent of the GDP (Access Capital 2012). Moreover, about 75 per cent of food consumption in Ethiopia is comprised of local staples (such as sorghum and teff) that are not traded much internationally (World Bank 2007). Given the small share of imports in GDP and in the Ethiopian consumer basket, the inflation of imported items cannot be the major underlying source of the food inflation in Ethiopia, though it may have some marginal effects.

Second, commercial imports of food staples in Ethiopia are limited amounting to about 8 per cent although this accounts for roughly 16 per cent of its foreign exchange earnings (World Bank 2007). According to customs data, the commercial import of maize was negligible. For instance, 1,037 mt of maize were officially exported in 2004 and 2,575 mt in 2007 according to the same source. Similarly, the commercial import of wheat has been insignificant, amounting not more than 20,000 mt until 2008. Indeed, Ethiopia had imported a significant amount of wheat during the crises. The largest amount of wheat import was in 2008, when the government imported

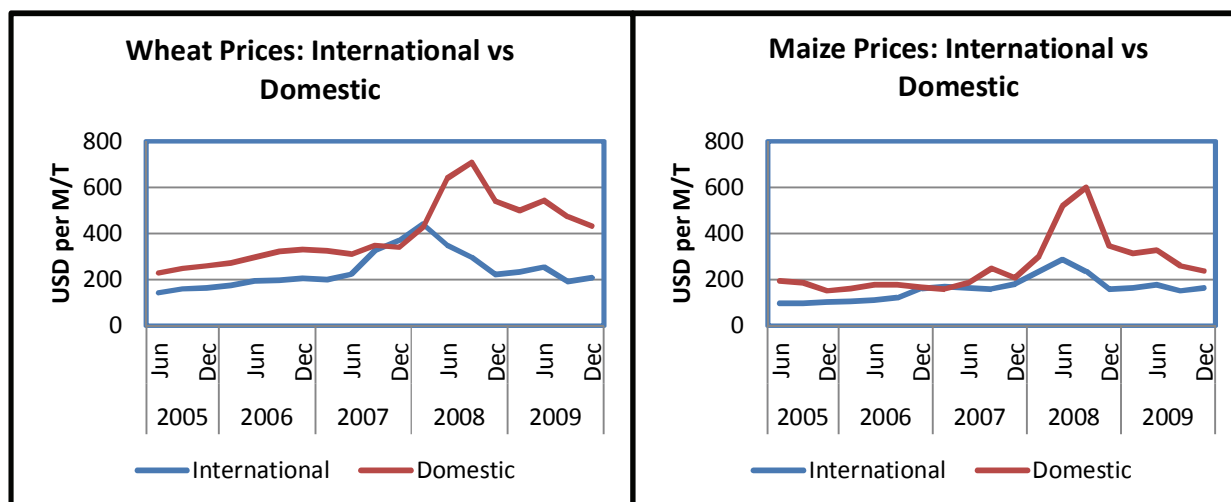
545,325 mt to stabilize the grain market (see Table 2). Wheat export from Ethiopia is also negligible. It was 130 mt in 2004; 420 mt in 2005; 8 mt in 2006, and 155 mt in 2007 according to data obtained from the Customs Authority. There was no export in 2007 and 2008. Hence, since there is very little commercial trade in the main staple grains in Ethiopia, it is difficult to understand how international food prices would be directly transmitted to local markets.

For domestically produced and consumed staples, the impact of international price increases can also filter through to domestic inflation if that domestically produced good is exported in large quantities since high prices in external markets become more attractive options for local producers and exporters and this would tend to push up domestic prices too if producers are to keep supplying the local market. And indeed, unit prices for some of Ethiopia's export commodities such as coffee and oil seeds have been increasing during the period. However, given the small weights of these commodities in the CPI, the net impact of such external price effects would not be expected to be significant on the overall domestic price index. In addition, the rise in world food prices was accompanied by a similar increase in oil price that led to higher costs for fertilizer, sea freight, and overland transportation, which could raise the cost of both domestically—produced and imported food. In the case of Ethiopia, unit price of imports for petroleum soared by 145 per cent and that of fertilizer increased by more than 254 per cent in 2008. Minot (2010) argues that landlocked countries face both higher costs, insurance, and freight prices of imported food and higher costs of overland transport. Thus, higher fuel costs may be an important contributing factor, but they are not enough to explain the full increase in staple food prices in Ethiopia.

Moreover, the changes in the price of food staples was much more pronounced for Ethiopia when compared with the changes in other countries, showing that domestic price have not been significantly influenced by international border prices (Minot 2010). Inflation rates were also far lower for goods that are influenced by international prices than they were for other categories of goods. In other words, commodities that can be reasonably judged to have a large import component show relatively lower inflation than the overall price index.

Domestic prices in Ethiopia started increasing before the global food crisis and started increasing sharply long after world prices stabilized (see Figure 7). Ethiopian food prices also increased more rapidly than world food prices over the reference period. Moreover, local prices did not follow the downward trend in international prices after 2008, but continued to steadily rise.

Figure 7: Domestic and world price of wheat and maize



Source: computed based on data from the Ethiopian Grain Trade Enterprise (2005–09) and IMF Database (2012).

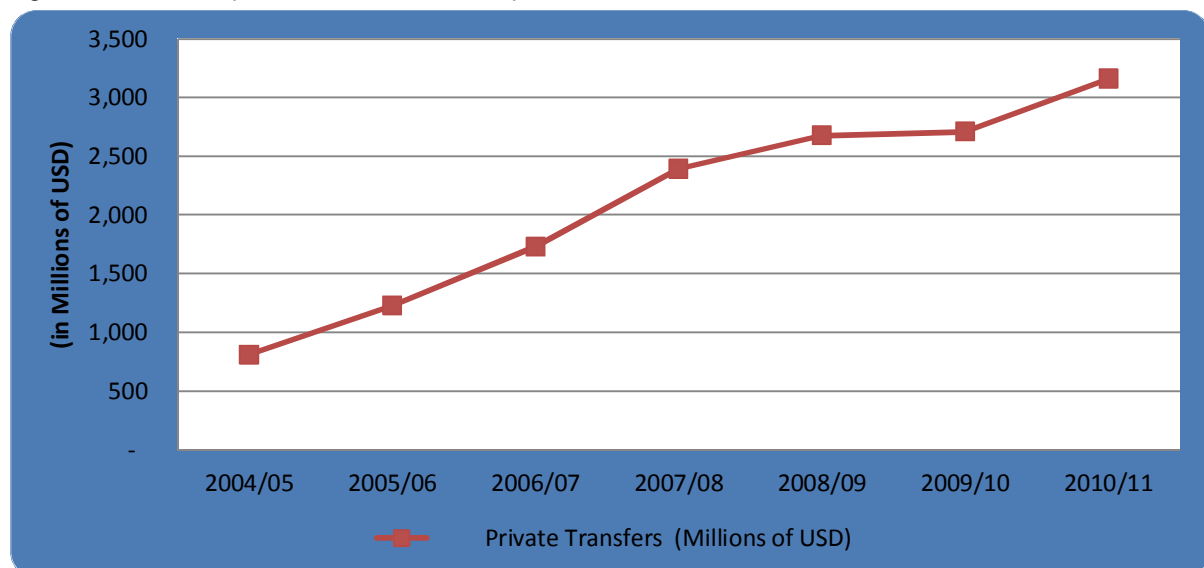
The study by Ulimwengi, Workneh, and Paulos (2009) found that although all regions in Ethiopia have experienced drastic rise in food inflation since 2004, none of the Ethiopian regional maize markets had a long-term connection to the world market. This study argues that n markets are spatially integrated if and only if $n-1$ cointegrating factors exist. Using the Johansen method, the study found that the Ethiopian local maize markets do not share a common long-run trend in their respective price with the world maize market. The short-term impacts of a 1 per cent change in the world maize price on regional maize prices in Ethiopia are also limited, less than 5 per cent and insignificant in most of the regions. Only border regions experienced higher and significant influence from the world maize price on local markets. Minot (2010) also found out that although the international price has a statistically significant effect on the domestic price of wheat, the coefficients suggest that the relationship is fairly weak.

In view of the above, it can be concluded that domestic rather than foreign factors were more important determinants of Ethiopia's food price inflation during the crisis. As noted by Minot (2010), the domestic policy and production shocks such as the government's restrictions on imports and the purchase of foreign exchange must have been more important contributing factors. As indicated by the World Bank (2007) study and also emphasized by the study by Loening, Durevall, and Birru (2008) a supply shock may have contributed to higher real staple food prices in Ethiopia. In addition, although the rising inflation ought to be normally accompanied by a depreciation of the currency, the government has imposed restrictions on imports and on the purchase of foreign exchange. While domestic prices rose about 70 per cent between June 2007 and June 2008, the exchange rate remained essentially unchanged. In early 2008, the national bank started rationing foreign exchange. So, as noted by Minot (2010) because of the fuel subsidies and restrictions on the foreign exchange market a shortage of foreign currency was created, preventing private traders from importing grain.

3.6 Impact of the food crisis on household welfare

It has been indicated earlier that about 57 per cent of the overall CPI is represented by food prices. Although empirical studies are not yet available, the high food price is believed to have affected different groups of people differently. Poor households usually try to smooth out their consumption requirements by selling some of their assets, reducing their consumption levels, and through increased remittances. The official private transfer increased significantly during the crisis years (see Figure 8). In addition, a significant amount of unofficial remittance is flowing into the country. The price increases also led to a reduction in the consumption of preferred foods and switching to other cheaper foods. Reducing food consumption and spending on non-food items have been found out to be significant coping strategies by the most vulnerable households in Ethiopia according to a recent study (Bene, Devereux, and Sabates-Wheeler 2012). In addition, the same study found out that at least wealthier households rely mostly on their livestock assets to smooth their consumption.

Figure 8: Trends in private transfers in Ethiopia



Source: computed by the author based on data from the National Bank of Ethiopia, Annual Reports (2005–11).

In addition, teff is the most commonly staple grain consumed by most people, particularly in urban areas in Ethiopia. However, during the crisis many people resorted to relatively cheaper foods such as maize and sorghum. Some have also started eating less of what they usually used to eat. While finding scientific empirical evidence is difficult, anecdotal observation showed that people have been eating twice a day instead of the usual three meals. According to the World Bank (2007) study the poor are net consumers implying that higher food prices could lead to increased poverty. Moreover, small farmers in Ethiopia do not participate in output markets as sellers only but also as buyers (it is estimated that more than 80 per cent of cereal producers purchase some cereals).

The result from a micro level study on fifteen Ethiopian rural villages shows that the poverty level fell substantially (from 48 to 35 per cent) between 1994 and 2004 but increased to 52 per

cent in 2009 and consumption per capita declined significantly (Dercon et al. 2011). Another study by Action against Hunger (2009) also indicated that high prices were closely followed by an increase in malnutrition and under-five mortality rates. Another study by Ulimwengi et al. (2009) also argues that a 50 per cent increase in grain prices would reduce urban caloric intake by 16 per cent and rural caloric intake by 24 per cent. Recently, Kumar and Quisumbing (2011) have undertaken a study on the issue and have suggested that female-headed households in Ethiopia have experienced a higher food price shock in 2007/08. These studies seem to suggest that the food price crisis indeed had significantly affected particularly the socially disadvantaged and poor people.

3.7 Impact on the balance of payments

In addition to the significant effect on household welfare, the food crisis also created serious balance of payment problems in Ethiopia. The worsening current account balance was accompanied by rising fiscal deficits. According to IMF (2008), the impact of the 2008 food and fuel price increases has consumed more than 50 per cent of the international reserve for Ethiopia. The level of the international reserves recovered to over two months of imports at the end of 2009 due to the policy measures.

4 Policy responses to the 2007–08 food crisis

The Ethiopian policy makers strongly felt that staple foods cannot be left to market forces alone and took several measures to stabilize food prices and to improve the purchasing power of the most affected segments of the population, mostly the urban poor. Like in many other countries, Ethiopia also took measures ranging from fiscal, trade and monetary policy to social protection and safety net measures. Since the price transmission from the international market was limited, the policy responses were instigated by domestic price increases caused by domestic factors.

4.1 Export bans on cereals

One of the first measures taken by the Ethiopian government was to restrict grain trade. The government banned the export of major food grains through several government circulars and directives based on the assumption that prices have increased because of the exports of these staples, at least those tradable grains. Accordingly, the export of teff, wheat, maize and sorghum was totally banned through a directive issued by the Ministry of Trade and Industry in December 2006. In June 2008 the ban was extended to all cereals.

4.2 Fiscal and monetary measures

Ethiopia also removed value added tax and turnover taxes on food grains and flour through a directive issued in March 2008 to contain the high inflation rate exhibited by the major food items including cereals, pulses, and flour of these staple food items. The elimination of value added tax, turnover tax, and surtaxes on selected food items was intended to help to control food prices particularly in urban markets.

The government also attempted to restrict the supply of monetary aggregates in the economy since increased money supply was also suspected to have contributed to the crisis. The National Bank of Ethiopia raised the minimum reserve requirement from 10 to 15 per cent of net deposits in 2007 (National Bank 2007). In addition, the Bank issued another directive on 7 April 2008 in which it raised the minimum liquidity requirement to 25 per cent of the bank's total current liabilities (National Bank 2008). These directives are believed to have significantly reduced the lending capacity of commercial banks and thereby reduced the money supply in the economy. However, public spending has not been as such affected by the various national bank directives. The minimum interest rate on time and saving deposits has also been raised.

4.3 Administrative and price control measures

In addition to the above measures, the Ethiopian government took several administrative measures on the domestic market. The most direct intervention was the price control, where the government prescribed the maximum prices to be charged for selling grains and the restrictions put on private traders. The directive required traders to use price tags on their goods and to post the list of their goods for sale with the corresponding prices. Traders were warned not to hoard any grain. A task force was established with the mandate to take immediate action including the closing of illegal shops and stores without prior warning. Accordingly many traders were arrested for not respecting the directive (*Ethiopian Herald* 2008). But, the strategy seems to be not effective, as shortages of staple grains were observed in the market following these measures. There was also a suspension of local procurement by the WFP and others.

4.4 Releasing of reserve grain stocks and grain procurement measures

Ethiopia had maintained a strategic grain reserve for a long time although substantial market liberalization was implemented. The Emergency Food Security Reserve Administration was restructured and re-established in 2000 as a government organization to manage emergency food reserve as part of the preparedness strategy in the country's disaster management efforts. The government released food grain reserve stocks starting in late 2007. Accordingly, about 190,000 tons of wheat was sold from the grain reserve stock to the urban poor. More than 5000 tons of wheat was also distributed to flour mills (FAO 2011). In addition, the WFP and other non-governmental organizations on their part channelled about 200,000 tons of food aid during the crisis (FAO 2011).

The Ethiopian government also started to procure wheat from the international market and distribute to poor consumers at subsidized prices through consumers' associations and co-operatives. Thus, in 2008 EGTE and WFP imported 520,000 and 515,000 tons of wheat and maize, respectively. The EGTE imports were distributed through the urban food rationing programme and through sales to flour mills at subsidized prices. This measure indeed helped to reduce the price of wheat in the domestic market. In order to finance the importation and sale of wheat at subsidized prices the government imposed a 10 per cent surtax on selected imported goods such as ready-made clothes, packed foods, electronics, beverages, perfumes, etc., which according to the government were luxury products in April 2007 (*Ethiopian Herald* 2008). The WFP and NGOs also were engaged in importing food.

4.5 Productive safety net programme

Ethiopia, which had a long history of emergency food assistance in the form of relief aid, also intensified its social protection interventions. It shifted its strategy of distributing food aid to a productive and development-oriented programme starting in 2005 by introducing the PSNP. The overarching principle of the PSNP was to facilitate 'a gradual shift away from a system dominated by emergency humanitarian aid to productive safety net system resources. The focus of this programme was to provide more reliable and timely support to chronically food insecure households by helping them to earn income (in kind or cash) through cash or food for work labour-intensive public programmes (MoFED 2006). Those households who have no labour or no other means of support, and who are chronically food insecure receive direct support. About 20 per cent of the beneficiary households in PSNP receive direct support (Kie-Song 2011).

The programme initially targeted about five million people when it started in 2005. However, the number of food insecure people increased drastically to about 8 million in 2008 and the government requested donors to increase their contribution in order for it to assist people in non-PNSP rural areas affected by the 2007/08 food price crisis. The number of people from non-PNSP areas that depended on the food assistance of various NGOs also increased from 4.6 to 6.4 million people in 2008. Although WFP had planned in 2008 to provide food assistance to about one million people, it delivered assistance to more than 11 million people during the year. In addition, the government increased the daily wage rate (cash transfer for public works in the framework of the programme) from 6 ETB to 10 ETB per day to offset the negative impact of the price increases and sustain income levels. In many instances, households preferred to receive food assistance as opposed to cash during the food price crisis.

4.6 Increased investment in agriculture

Ethiopia also took several measures to increase the productivity of the agriculture sector and support domestic food production. Long-term investment in agriculture has been adopted as one of the viable options by the Ethiopian government starting in 2008 by offering attractive incentives for investors particularly from China and India. The Ministry of Agriculture transferred more than 3.5 million ha of land to these investors and is in the process of transferring a similar amount in the next five years. However, there is a lot of debate regarding these land investments and their food security implications (Desalegn 2011). It is argued that the acquisition of land that may be claimed by indigenous societies may lead to food shortage. Some also argue that foreign investors are acquiring land to feed their growing population and are leaving the local rural population without land or jobs. Nevertheless, the number of foreign investments that have started operation is still limited.

With the aim of improving agricultural productivity and bring agricultural transformation by supporting existing structure of the government, the private sector and non-state actors an Agricultural Transformation Agency has been established. The agency is playing a co-ordinating role and aim to address the systematic bottlenecks in seeds, soil health, and fertility management, input and output markets, extensions and research, and co-operatives. The government has also committed to increase its investments on agricultural research and extension as well as on irrigation and new technology development (Wodon and Zaman 2010). Improving farming

practices, advising farmers to use water pumps, overcoming soil acidity, empowering farmers to get access to finance through microfinance institutions etc., have been some of the other measures. Investment in agriculture was also strengthened by improving infrastructure such as roads to make less densely populated areas more accessible to investors and investment.

Other measures to improve productivity through enhanced input delivery have also been considered. For instance, donor assistance to cover around 50 per cent of the cost of fertilizer was requested in 2008 in response to the food prices rises. The government has also proposed to subsidize the cost of fertilizers by about 25 per cent. Schemes to improve and narrow the gap between the demand for improved seeds and actual supply and distribution through government-imported certified improved seeds have also been designed. Increased resettlements programmes to reduce the pressure on over-populated areas as well as increase family planning services with the view of reducing pressure on fragmented land holdings were additional measures taken. Introduction and support agricultural insurance systems and micro credit services have also been intensified. Measures were also taken to support pastoralists by providing direct supply of feed and establishment of water points.

4.7 Establishing a commodity exchange

The Ethiopian government has also considered the use of future markets to enhance market transparency. It established the Ethiopian Commodity Exchange (ECX) in March 2008 to facilitate a long-term legally binding contract between the agricultural commodities suppliers and traders and thereby reduce or manage risk. The intention is to create a new market place where all market actors (from farmers to traders to processors to exporters to consumers) can take advantage of more transparent market information and hedge against price risks through standardized contracts for immediate or future delivery. Although ECX trading started with four commodities, namely maize, wheat, haricot beans and sesame seeds, only some maize and wheat were traded initially through an agreement with WFP and government institutions, such as the military and universities. Currently, coffee and sesame are the main crops that are traded on the exchange. So, its contribution in stabilizing food staples is quite limited.

4.8 Other policy measures

The Ethiopian government has also tried other measures. For instance, it attempted to create economic opportunities for the most vulnerable groups especially in urban areas by providing finance and working space. Several urban work programmes have been launched to help engage particularly the youth. The school feeding programme which started earlier was also expanded and strengthened to retain students in school (WFP 2008). The government, as well as the non-state operators, also increased the salary of public employees.

5 The rationale for policy interventions and the role of stakeholders

5.1 The Rationale for policy interventions

5.1.1 The need for macro-economic stability

The government has always claimed that achieving sustained economic growth by maintaining macro-economic stability is one of its central objectives. Accordingly, the effort to lower the growth of money supply towards the end of 2008 was basically derived from the intention to maintain a level of inflation that is not detrimental to growth. For instance, the increased reserve requirements for private banks as well as the credit cap on lending by private commercial banks were direct responses to limit the growth of money supply. But, this action has seriously undermined the lending ability of private banks and had constrained import trade in particular as most of the short-term loans from the private banks were used to finance imports.

5.1.2 The need to avoid social unrest

The 2007–08 food price crises occurred just two years after the national election in 2005. There have been some controversies on the result of the election and several protest actions were organized by the opposition political parties after the elections. The aftermath of the election created serious uncertainties and partly contributed to the upward pressure on prices. Some farmers were reluctant to sell their produces after the 2005 elections, due to the uncertainties created after the election. The members of the opposition political parties also often used the high food price inflation to show the weakness of the government. So, the Ethiopian government took various measures to control rising food inflation since it did not want to take another risk which might lead to another political and social instability.

5.1.3 Protecting the poor (welfare concerns)

The Ethiopian government has been extremely concerned about the implications of the food price rise on the food security status of the most vulnerable urban households and producers (*Ethiopian Herald* 2008). The importation and distribution of food grains at subsidized prices to the poor people was a direct response to the challenge the aim of which was to minimize the impact on poor people. The introduction of the food rationing programme suggests that the economic, human, and political costs that may be caused by price instability are a predominant government consideration in food policy in Ethiopia (Rashid 2010).

5.2 The role of stakeholders

5.2.1 The configuration of the decision making organ

Ethiopia has adopted a federal system of government which divides the country into nine ethnically based regional states. Each regional state is further clustered into lower levels of administrative units consisting of zones, *woredas* (districts) and *kebeles*. The regional states have the power to establish their own regional council which has a legislative and executive power regarding the respective region. There is also acute shortage of competent and qualified experts

within the public sector as competent and qualified experts have left from the sector due to low pay and other mal-administrations.

The Ethiopian system of governance recognizes three branches: the legislative, the executive, and the judicial branches and the system of political governance is based on a multi-party political configuration. Several political parties have been formed mostly organized along ethnic lines. However, most have been unable to win seats in the federal or regional parliaments during the successive elections in the country. In the entire history of the Ethiopian parliament only the 2005 election saw a sizable number of opposition political parties' representation, although, several members of the opposition political parties refused to take their seats in parliament. However, in the most recent election in 2010 only one member of the opposition and one independent candidate were able to win seats in the House of People's Representatives. The rest of the parliamentarian belongs to the ruling party. So, the configuration of the political landscape governance is highly skewed towards the ruling EPRDF political party led by a powerful prime minister. The House of Peoples' Representatives, which is the legislative organ, is dominated by the members of the ruling party which has easily reinforced the legacy of a one-party policy-making process. The role of the government in the economic framework is also huge. It has several state-owned corporations involved in many critical economic sectors.

5.2.2 The role of the legislative and the executive organs in the food price policy decisions

Several key actors are created within the Ethiopian political landscape under the auspices of the space guaranteed by the constitution. The legislative, the judicial, and the executive branches of the government, the public and private media, civil society organizations, and academia are the major ones. In addition, bilateral and multi-lateral international organizations such as the World Bank and IMF have also huge stake in the social and economic developments in Ethiopia.

In the case of the 2007–08 food price crisis, there were several discussions regarding the issue in the House of People's Representatives (lower chamber). The few members of the opposition political parties who took their seats after the 2005 elections in the House of Peoples' Representatives were constantly requesting the government to provide explanations for the high food price increase. Unfortunately, consensus has not been reached on the causes of the rising food price and the policy responses between the government and the members of the opposition political parties. On the one hand, the government was arguing that the food price increase was the result of the growth process itself and, therefore, the solution is to intensify growth. According to the government, increasing supply will be the mechanism for meeting the imbalance between the demand for food and the supply as demand has grown faster than supply. On the other hand, the members of the opposition political parties were blaming the monetary and fiscal policies of the government causing the problem. It was only in 2009 that the government accepted the argument that its monetary policy is one of the sources of the problem and started to take measures to reduce the money supply in the economy. The imposition of credit ceilings on private commercial banks was an example of the measures.

While the persistent appeal by the opposition members of parliament at the time is believed to have marginally contributed to the adoption of various policy measures, the main initiator and driver of the policy measures with respect to the food price rise during the crisis was the executive branch of the government. Most of the policy measures were drafted by the MoFED

and the Ministry of Trade and Industry and discussed within the Council of Ministers and when approved by the House of People's Representatives are issued as directives by the respective ministry and made public through the mass media. As the House of People's Representatives was dominated by the members of the ruling political party at the time, whatever was drafted by the executive branch often easily got endorsed by the House. The National Bank was mainly responsible for the monetary directives.

5.3 The contribution of other national stakeholders

As discussed earlier the Ethiopian political landscape is dominated by a centralized and authoritarian executive branch which does not often respond to public pressure. Nevertheless, it is believed that some groups indeed had limited influence on the policy decisions. For instance, there have been several media reports regarding the high food prices; though it is not clear to what extent they have influenced the policy decisions. While the relatively strong public media invariably propagated only the government view and accused the private traders and developments in the international market for the food price rise, the relatively weak and less effective private media which is stifled by a restrictive press law was very emotional in the sense that some of their arguments were not supported with evidence and primarily focused only on condemning the government for the problem. The government had often accused the private media being biased and unprofessional whose reports were not supported by empirical evidence. So the views of the media in particular on the price crisis were often divided.

The role of the private sector including the commerce of chambers in influencing the food price policy decisions has also been limited. The government has actually accused private traders of hoarding grains and causing the price escalation during the food price crises. As a result the private sector has often been harassed and intimidated by the government as the various statements issued by the government clearly show. Similarly, the role of civil society organizations in the food price policy decisions has been limited. The Ethiopian government has often stated that the attempt to influence policy by civil society organizations is not most welcomed. There are not many consumers and producers associations in the country that can put meaningful pressure on the policy makers. There were some co-operatives and unions engaged in trading activities, which according to some people, were contributing to the inflationary situation in urban areas as they bought grains from farmers and sold them at high prices. Apart from individual discontents and complaints, there has not been any major organized public riot or protest by the civil society groups due to the food price hike.

Although there are few national research institutions including the Ethiopian Economics Association, the Ethiopian Development Research Institute, and some university-based research units which were expected to provide evidence-based policy suggestions; their contribution has been also marginal as the culture of evidence-based policy decision is not strong within the Ethiopian system of governance. There has not been any reference in the policy documents which shows that the policy measures regarding the food price challenges were informed by the results of researches undertaken by these institutions.

5.4 The role of external development partners

It can be hypothesized that the multilateral institutions such as the World Bank, IMF, EU, FAO, WFP as well as the bilateral donors such as DFID or USAID might have some influence on the policy framework since Ethiopia is heavily dependent on these donors. However, the Ethiopian policy makers have often claimed that they have not been influenced and dictated by external partners. Nevertheless, some discussion forums focusing on the food prices have been organized and the government has accepted some of the recommendations although it has not openly acknowledged it in public. Some people say that the government was forced to cut back on some investments projects, or at least forced to delay them around 2008 as a result of the advice of the international bodies. In addition, some of the recommendations by international research organizations might have been considered by the policy makers, although there has not been any explicit reference to the studies.

6 Major outcomes of the policy interventions

6.1 Socio-economic impacts

While studies have not yet established a clear link between changes in welfare and the policy measures in Ethiopia, it can be argued on the basis of limited anecdotal evidence that the measures have helped to reduce the potential negative impacts of the crisis on consumers. For instance, the FAO (2011) study showed that the number of undernourished people in Ethiopia in 200002 which was about 33 million remained the same in 200608. The same report actually stated that the proportion of undernourished people went down from 48 per cent in 200002 to 41 per cent in 200608. Another FAO (2009) study also confirmed that malnutrition had continued to decline in 2008.

Similarly, official data from MoFED show that the food price rise does not seem to have reversed the decline in poverty. The proportion of the population below the poverty line which was estimated to be around 37 per cent in 2005/06 declined to 29.6 per cent in 2010 (MoFED 2012). It seems that the policy interventions have counterbalanced the potential negative effects of the food price rises and actually contributed to the poverty reduction efforts. The release of emergency food stocks and the distribution of subsidized imported wheat to low income urban families must have helped to maintain households' stocks. The government sales of its wheat imports from July to October 2008 successfully reduced domestic market prices (Rashid 2010). Similarly the introduction of the productive safety net programme must have also helped to contain the impact. Although, the PSNP was initially planned to benefit around 5.14 million people per year, MoARD (2009) and Amdissa (2010), however, indicated that around seven million people have been able to meet consumption needs through food for work programme and around one million as direct beneficiaries.

7 Conclusions

Inflation in general and food price inflation in particular was not a serious challenge in the past in Ethiopia except during drought years. However, the food price inflation rates portrayed a

general upward trend starting around 2004, even much higher than the world index. Though developments in the international markets indeed have some minor impact, the high food inflation was caused mostly by domestic factors including the increased monetization of the economy, the inefficient and poorly integrated market structure, as well as the speculative behaviour of market participants. Developments in the international market had little impact.

Recognizing the challenges brought about by the rising food prices, the Ethiopian government took several policy measures including the banning of cereal exports, reduction of import tariffs, raising the reserve requirement of commercial banks, administrative measures and releasing of grain stocks and most of all, distributing grains at subsidized prices to the urban poor starting in 2006. Although there has been some limited pressure by some interest groups, both domestic and external, most of the policy measures were initiated and implemented by the executive branch of the government. The main factors that motivated the government to take these measures include the desire to avoid social unrest, protect the urban poor and maintain a stable macro economy. These measures have indeed helped to control and reduce the potential negative impact of the food price increase particularly on the poorest segment of the population. The interventions helped to bring some level of macro-economic stability, maintain the trend in poverty reduction and improve the balance of payment position from a situation of one month's import to about 2.5 months import in 2009.

This study has clearly underscored the need for putting appropriate and well-targeted social protection programmes to reduce the impact during such crisis. Buffer stocks and emergency reserves are also important instruments. In addition, the food price episode has also underscored the need for considering agricultural development as a priority for food security. Establishing monitoring mechanisms to reduce the negative consequence of food price volatility in the future could also be useful.

References

- Access Capital (2012). 'Agriculture Sector Review, Access Capital Research'. Available at: <http://www.accesscapitalsc.com/>
- Action against Hunger (2009). 'Feeding Hunger and Insecurity: The Global Food Crisis'. Briefing Paper. New York: Action against Hunger.
- Amdissa T. (2010). 'The Road for Long-term Social Protection: The Case of Amhara Region Productive Safety Net Programme'. In G. Alemu and D. Getachew (eds), *Proceedings of the First Regional Conference of the Amhara Regional State Economic Development*. Addis Ababa: EEA.
- Bene, C., S. Devereux, and R. Sabates-Wheeler (2012). 'Shocks and Social Protection in the Horn of Africa: Analysis from the Productive Safety Net Programme in Ethiopia'. Working Paper 395. Brighton: Institute for Development Studies.
- Central Statistical Agency (CSA) (2010). 'Country and Regional Level Consumer Price Indices'. Addis Ababa: Central Statistical Agency.
- (2012). 'Monthly Consumer Price Index' <http://www.csa.gov.et/>

- (2001–12). 'Agricultural Sample Survey Reports' Addis Ababa: Central Statistical Agency. Available at: <http://www.csa.gov.et/>
- Dercon, S., D. O. Gilligan, J. Hoddinott, and T. Woldehanna (2009). 'The Impact of Agricultural Extension and Roads on Poverty and Consumption Growth in Fifteen Ethiopian Villages'. *American Journal of Agricultural Economics*, 91 (4): 1007–1021.
- Dercon, S., J. Hoddinott, and T. Woldehanna (2011). 'Growth and Chronic Poverty: Evidence from Rural Communities in Ethiopia'. Working Paper 2011-18. Oxford: Centre for the Study of African Economies.
- Desalegn R. (2011). 'Land to Investors: Large Scale Land Transfers in Ethiopia'. Forum for Social Studies: Addis Ababa
- Dewbre, J., C. Giner, W. Thompson, and M. Von Lampe (2008). 'High Food Commodity Prices: Will They Stay? Who Will Pay?' *Agricultural Economics*, 39: 393–403.
- Ethiopian Revenue and Customs Authority (2011). Available at: http://www.erca.gov.et/import_export
- Ethiopian Economics Association (EEA) (2004). 'Report on the Ethiopian Economy, Volume III. Addis Ababa: Ethiopian Economics Association.
- (2011). 'Report on the Ethiopian Economy'. Addis Ababa: Ethiopian Economics Association.
- Ethiopian Grain Trade Enterprise (2005-2012). 'Free Market Wholesale Price of Different Grains in Addis Ababa'. Available at: <http://www.EGTE.gov.et/>
- Ethiopian Herald (2008). 'Promising Actions to Curb Inflation'. Vol. LXIV, Number 176. Addis Ababa.
- FAO (2009). 'FAO/WFP Crop and Food Security Assessment Mission to Ethiopia'. Special Report (Phase 2) Integrating the Crop and Food Supply and the Emergency Food Security Assessments. Rome: FAO.
- (2011). 'Undernourishment around the World: Impact of the 2006–08 Price Shock'. Rome: FAO.
- Famine Early Warning System Network (FEWS NET) (2009). 'Ethiopia Food Security Update'. Addis Ababa: FEWS NET.
- Gabre-Madhin, E., and I. Goggin (2005). 'Does Ethiopia Need a Commodity Exchange? An Integrated Approach to Marketing Development'. EDRI-ESSP Policy Working Paper 4. Addis Ababa: Ethiopian Development Research Institute.
- Headey, D., and S. Fan (2008). 'Anatomy of a Crisis: The Causes and Consequences of Surging Food Prices'. *Agricultural Economics*, 39: 375–91.
- International Monetary Fund (IMF) (2008). *Food and Fuel Prices: Recent Developments, Macroeconomic Impact, and Policy Responses*. Fiscal Affairs, Policy Development and Review, and Research Departments Special Report. Washington, DC: IMF.
- (2012). 'IMF Primary Commodity Prices'. <http://www.imf.org/external/np/res/commod/index.aspx>

- Kie-Song, M. L. (2011). 'Integrating Public Works and Cash Transfers in Ethiopia: Implications for Social Protection, Employment and Decent Work'. Working Paper 84. Brasilia: International Policy Centre for Inclusive Growth.
- Kumar N., and A. R. Quisumbing (2011). 'Gendered Impacts of the 2007–08 Food Price Crisis Evidence Using Panel Data from Rural Ethiopia'. Discussion Paper 01093. Washington, DC: IFPRI.
- Loening, J., D. Durevall, and Y. Birru. (2008). 'Inflation Dynamics and Food Prices in an Agricultural Economic: The Case of Ethiopia'. Policy Research Working Paper 4969. Washington, DC: World Bank.
- Minot, N. (2008). 'Understanding Changes in Farm Level Crop Marketing'. Policy Brief 1 in 'EDRI-IFPRI Policy Workshop 'Market Dynamics and Cereal Availability in Ethiopia: Producers, Traders, and the Policy'. Addis Ababa.
- (2010). 'Transmission of World Food Changes to African Markets and its Effects on Household Welfare'. Washington, DC: IFRPI.
- Ministry of Finance and Economic Development (MoFED) (2006). 'Ethiopia: Building on Progress: A Plan for Accelerated and Sustained Development to End Poverty (PASDEP), Volume I Main Text. Addis Ababa: MoFED.
- (2007). 'Ethiopia: Building on Progress: A Plan for Accelerated and Sustained, Development to End Poverty (PASDEP)'. Annual Progress Report 2006/07. Addis Ababa: MoFED.
- (2010). 'Growth and Transformation Plan (GTP) 2010/11-2014/15'. Addis Ababa: MoFED.
- (2012). Ethiopia's Progress towards Eradicating Poverty: An Interim Report on Poverty Analysis Study (2010/11)'. Addis Ababa: MOFED.
- Ministry of Agriculture and Rural Development (MoARD) (2009). 'Food Security Programme 2010/2015. Addis Ababa: MoARD.
- Mulat, D., G. Fantu, and F. Tadelles (2007). 'Exploring Demand and Supply Factors behind the New Developments in Grain Prices in Ethiopia: Key issues and hypotheses'. Addis Ababa: DFID/ Ethiopia.
- National Bank of Ethiopia (NBE) (2007). 'Reserve Requirement, 3rd Replacement Directive Number SBB/42/2007'. Addis Ababa: NBE.
- (2008). 'Reserve Requirement, 4th Replacement Directives SBB/45/2008. Addis Ababa: NBE.
- Rashid, S. (2010). 'Staple Food Prices in Ethiopia'. Paper prepared for the COMESA Policy Seminar on 'Valuation in Staple Food Prices: Causes, Consequences, and Policy Options, held in Maputo, 25–26 January 2010.
- RATES (2003). 'Maize Market Assessment and Baseline Study for Ethiopia'. Nairobi: RATES.
- Seyoum Tafesse A. (2008). 'Decomposition of Growth in Cereal Production in Ethiopia' Background paper prepared for the study on the role of agricultural growth in Ethiopia.

- World Food Programme (WFP) (2008). 'Standardized School Feeding Survey, Country Status Report: Ethiopia'. Rome: WFP.
- (2012). 'Quantity Reporting'. Available at <http://www.wfp.org/fais/reports/quantities-delivered-two-dimensional-report/run/cat/All/year/2009;2008;2007;2006;2005;2004/recipient/Ethiopia/donor/All/code/WHEAT/mode/Direct+Transfer/basis/0/order/0/>
- World Bank (2007). 'Explaining Sources of Food Price Inflation in Ethiopia: A just in Time Policy Note'. Draft. Washington, DC: World Bank.
- Wodon, Q., and H. Zaman (2010). 'Higher Food Prices in Sub-Saharan Africa: Poverty Impact and Policy Responses'. *The World Bank Research Observer*, 25 (1): 204–21.
- United Nations Conference on Trade and Development (UNCTAD) (2008). 'Trade and Development Report: Commodity Price Hikes and Instability'. New York and Geneva: UNCTAD.
- Ulimwengu, J. M., S. Workneh, and Z. Paulos (2009). 'Impact of Soaring Food Price in Ethiopia: Does Location Matter?'. Discussion Paper 00846. Washington, DC: IFPRI.