

Ethiopia Grain Market Study

Background, objectives, and Expected Outcomes

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The Cereal Markets Puzzle

In 2002 cereal producer prices collapsed about 60 percent in response to what was then considered a bumper harvest of 9 million tons.

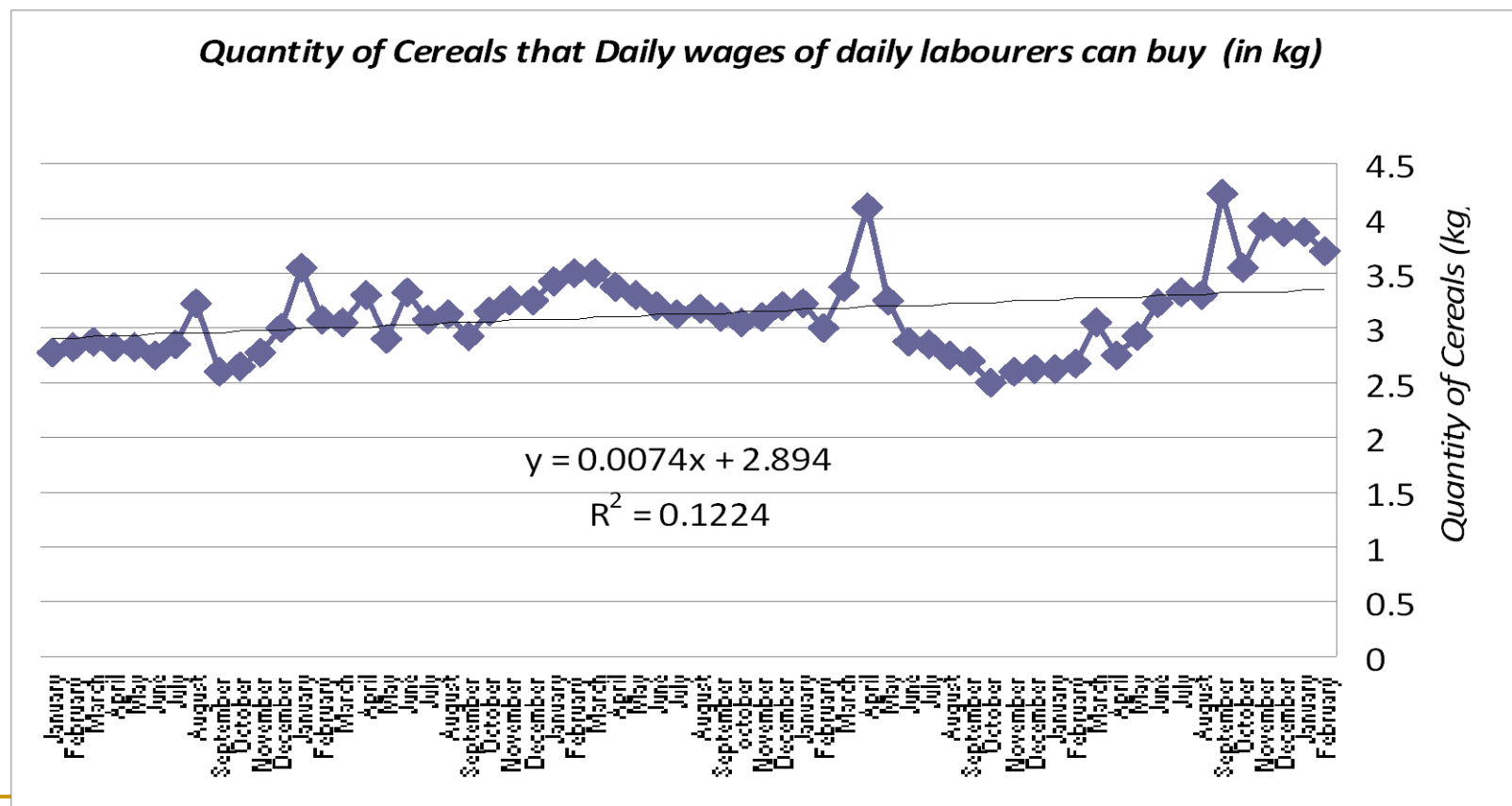
In 2007-08, total cereal production was 18.2 million tons—yet prices kept rising!!

The questions

- **Why** should we worry about this trend?
 - HH food security is affected
 - Food security and emergency assistance programs affected
- **What** explains this puzzling trend?
 - The sources of rising prices
 - Macro, micro, and international factors
- **How** can the consequences be mitigated?
 - Strengthen safety net / emergency programs
 - Invest in agriculture to increase productivity

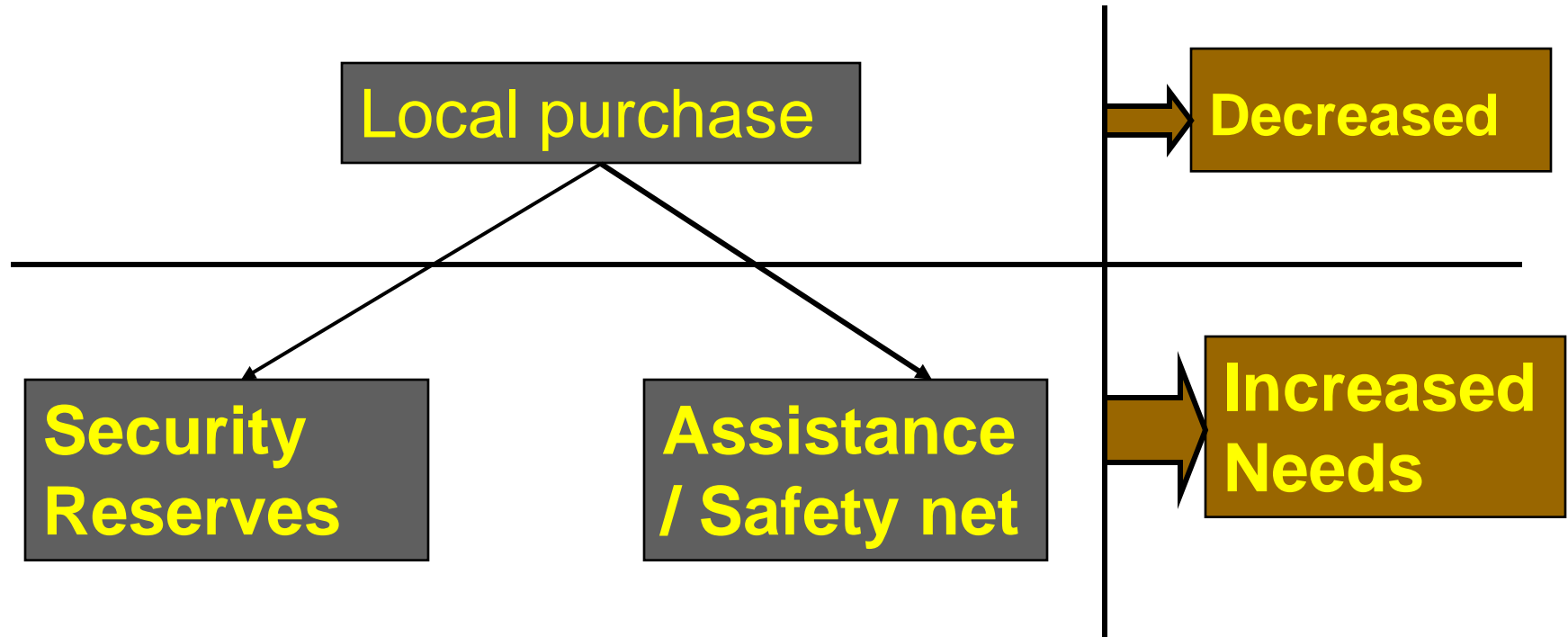
Why should we worry?

- Example 1: Wages do not adjust as fast as food prices!



Why should we worry?

- Example 2: Has implications for the food security programs

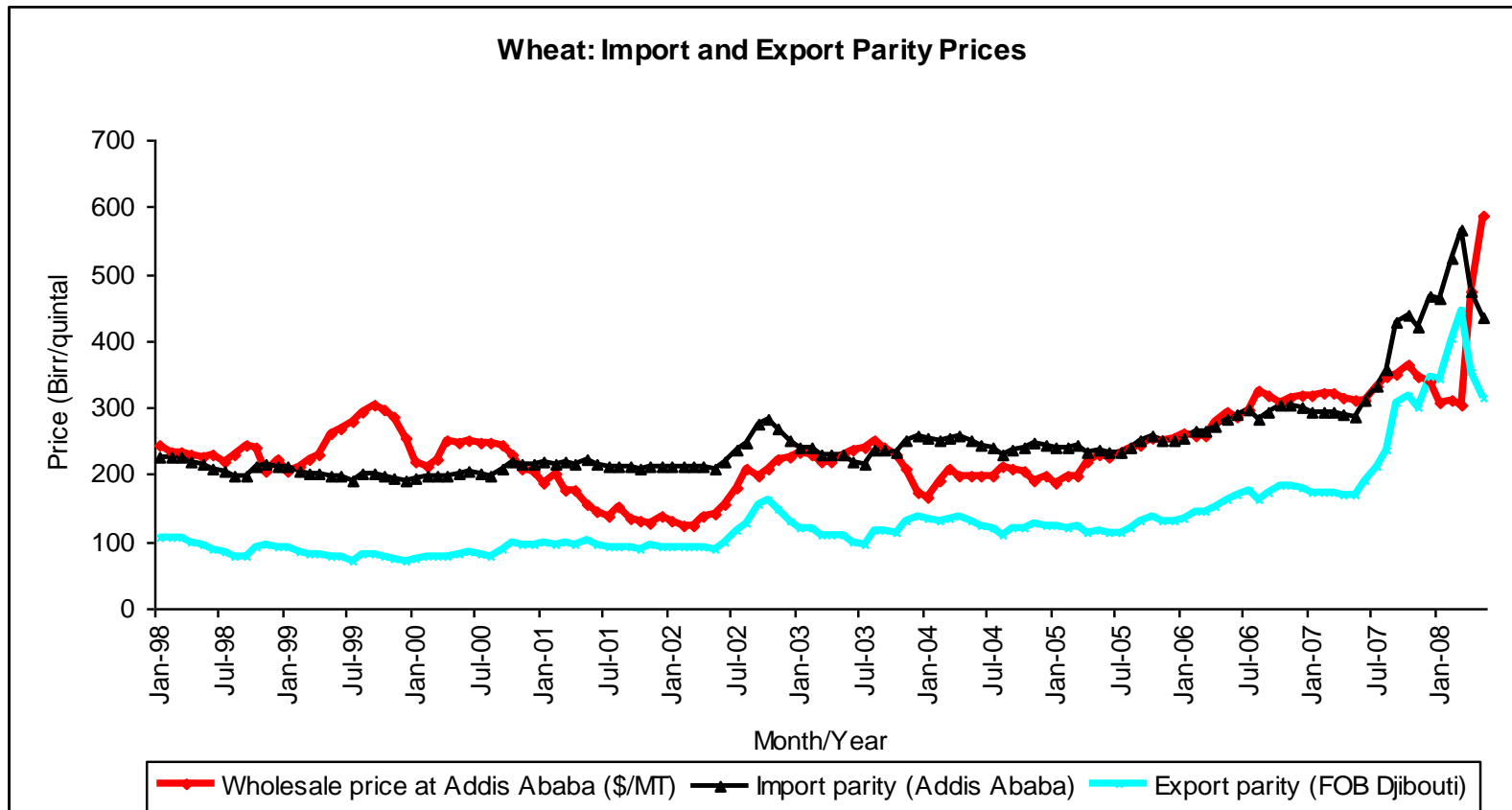


What explains this puzzling trend?

- Many proximate hypotheses:
 - Demand has outpaced supply (generic)
 - Increased income → increased demand
 - Increased income → ability to store → reduced supply
 - Changes in market structure
 - Cross border trade (illegal exports)
 - Macroeconomic factors
 - Rising prices in global markets
 - Cash transfers under PSNP
- Have some answers (studies)

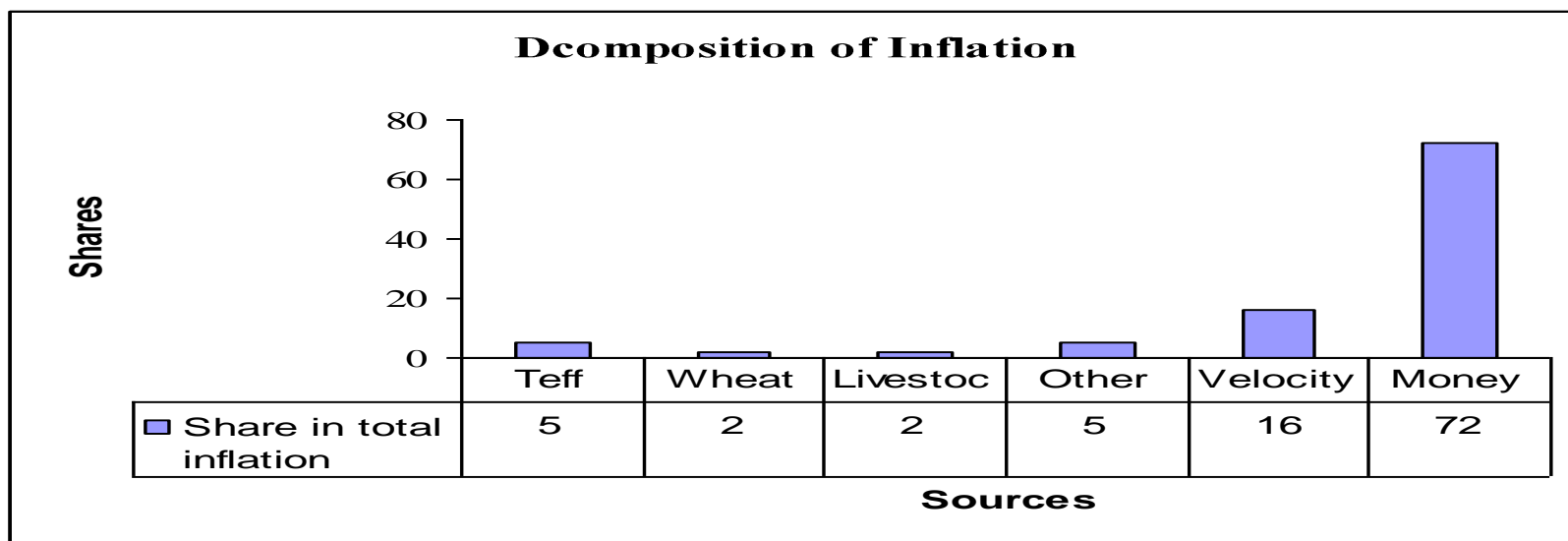
Some answers to the puzzling trends

Transmission of global price?
Cereals are non-tradable!!



Some answers to the puzzling trend

Macroeconomic factors



Cash transfers under PSNP?

--Accounts for about ½ a percent of price increase!

So where are we now?

- Cereals are non-tradable
- Cereal price increase is largely a nominal (real increases are small)
- Cereal production increased by 7-9 percent
- Cash transfer effects are small

Do these results tell us that marketed supply decreased? --NO

Another puzzle?

- Why then local purchase by EGTE, WFP, and others has been a problem?
- Two main criteria for WFP local purchases are:
 - Availability of cereal
 - Domestic markets not distorted—that is, prices do not go beyond import parity
- None of these criteria was violated last year. Yet local purchase was not possible.

Information gaps

- Need to look at changes at HH and market levels
- Particularly interested in:
 - Changes in consumption, storage, and crop choices at HH level
 - Changes in structure, conduct, and performance at market level
 - Cross border flow of cereal and livestock

The methods

- Two main surveys
 - A representative survey of 1,704 HH
 - A cereal market survey of 368 traders
- HH survey is designed to:
 - Examine changes in income (expenditure) consumption, storage, and crop choices
- Traders survey is designed to:
 - Examine changes in market structure, storage patterns, level of competition etc.

The method

- A third PRA type survey on cross border trade:
 - Understand policy, regulations, and enforcements
 - Institutional arrangements in informal CB trade
 - Trade routes
 - Actors
 - Rough estimates of the trade volume
- Methods
 - Review of relevant policy documents
 - Four border points (Asosa, Metema, Homera, Moyale)
 - PRA done by EIAR regional offices
 - Supervised by Dr. Dawit

The method

- Statistical considerations
 - Outcome variables
 - Cluster effects
 - Design effects
- Three-stage random sampling
 - Stage-1: Selection of Woreda
 - Stage-2: Selection of farmers' association
 - Stage -3: Selection of HH

What should we expect today?

- Preliminary results
 - Mainly descriptive statistics
 - Not conclusive
- Need your feedback
 - How to improve the preliminary results
 - Areas of further analyses
 - Relating the results with ongoing policy debates

What can we expect next?

- Level estimates:
 - production, consumption, and marketed output (household and market; trend and seasonality);
- Elasticity estimates:
 - demand and supply elasticities (incomes, prices, others);
- Assess changes (impact):
 - Explore survey respondents perception of changes
 - Compare survey estimates with estimates from other sources;
 - Multivariate, multi-market analysis;

Some insights regarding the recent price dynamics in Ethiopia