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Market Liberalization and the Problem of Instability in Prices and Supply of Domestic Food Grain in Ethiopia

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Abstract

In Ethiopia, domestic food production is much below the national requirement and has resulted in severe food insecurity problems under almost all governmental regimes. Among several factors causing the problem, inappropriate policy formulation and absence of technological progress were repeatedly emphasized. Thus, Ethiopia has adopted a market liberalization policy since early 1990s in order to stimulate efficient resource use, and the government has withdrawn its market intervention in particularly output marketing trusting that market forces guide and stabilize the economy. In addition, it has been striving to extensively introduce improved technologies to the rural farm households with the primary objective of attaining food self-sufficiency. However, it is argued that fully liberalizing prices has a drawback in that it may result in instability in agricultural production, increasing risk and uncertainty, and that it can worsen food insecurity.

A time-series analysis was made to assess the trend of prices and supply of major food grains. The results indicate that output of food grains dramatically increased from 1994 to 2001 mainly because of the use of improved technologies associated with good climatic conditions; but it drastically fell in 2002/2003. Accordingly, both intra and inter-year price variations were increased in the post reform period. Neither the farm households have storage facilities nor has the government buffer stock facilities to mitigate the instability problem. In addition to the inelastic nature of the supply and demand for grain food, weak governance, periodic weather changes, lack of market information and the absence of storage facilities are among the main causes of the instability problem. Because of the increasing risk of the price and output instability, it was learnt that farmers as well as consumers could not sustainably benefit from the use of improved technologies. Ultimately, the situation has resulted in significant reduction in the use of improved technologies and increasing vulnerability to transitory food insecurity. Therefore, for a sustainable growth in food production and agricultural growth, increasing use of irrigation, improving storage facilities and genuine government intervention to stabilize the grain system, at least in the short-run till the domestic market is sufficiently developed, is greatly recommended.

Keywords: Market liberalization, food insecurity and technological changes, instability