



Enabling Environment Risk in Rice



Enabling Environment Risk Management in the Rice Sector

This FARM-D Featured Topic provides a brief introduction into some of the key enabling environment risks facing the rice sector globally. This Topic shares the experience, insight, and research of practitioners and academics working and researching in this space. Authors include representatives from the World Food Program, the World Bank, and the University of Arkansas.

ABOUT FEATURED TOPICS

FARM-D Featured Topics are a series of original articles from members and experts focused on selected topic areas related to agricultural risk management.

Authors contribute articles, photos, recent publications, biographies, opinions and video from around the world and from a variety of viewpoints to FARM-D Featured Topics. Topics are also frequently updated online and new content added by authors and from around the web. This section of FARM-D is ever evolving and quickly becoming a valuable resource for agricultural risk management practitioners.

WHAT IS ENABLING ENVIRONMENT RISK?

Enabling environment risk can be classified as any abrupt changes in government or business regulations, macro-economic environment, trade restrictions, political situations, or violence and conflict which can result in shocks to an agricultural sector resulting in fluctuations in commodity performance and possible financial losses.

WHAT IS THE IMPACT OF GOVERNMENT ON THE MARKET?

C. Peter Timmer

In Asia, nearly all governments intervene in the functioning of the rice value chain. Governments aim to maintain reasonably stable rice prices for domestic consumers. This is attempted through provision of incentive prices for farmers, timely delivery of fertilizer, design, building and maintenance of large-scale irrigation systems and promoting rural financial systems that are accessible to smallholder farmers and traders.

However, these efforts have in the past proven to be unsuccessful, and in the worst cases increased risks to both farmers and consumers. This increased risk is often due to a failure on the part of the governments to consider the full impact of their actions on the markets they are attempting to influence.

Markets play a critical role by connecting farmers to input suppliers in order to get food to consumers. They further play a fundamental role in price discovery and allocation of scarce resources to meet the needs and desires of consumers. When prices are unstable, risks are created throughout the entire market system. This is even more risky because efficiency in resource allocation is essential to raise economic output sustainably and reduce levels of poverty and hunger. Reducing risks will come about only as the roles of markets are understood and government interventions are used to compliment the market when stabilizing the price environment for farmers and consumers.



Picture courtesy of Jean Martin Bauer

"Government policy and markets need to work together to bring poor households into a growing economy that is based on a productive, sustainable and stable food system."

- C. Peter Timmer

COUNTRY FOCUS: LIBERIA

Jean-Martin Bauer, the World Food Programme

In Liberia, poverty and food insecurity levels are highly sensitive to the price of rice. During the 2008 global food price crisis, the rate of severe food insecurity doubled, increasing from 4 per cent in December 2006 to 8 per cent in June 2008 in Greater Monrovia. Liberia extensively depends on rice imports, exposing the country to episodes of international price volatility.

Considering this history, Liberian authorities seek to keep domestic imported rice prices as low as possible, a policy approach that favors urban consumers at the expense of domestic rice producers. Since 2008, however, Liberia finds itself at a policy impasse. The costly measures adopted since 2008 – such as tax breaks and market controls – have not shielded consumers from price volatility, and have limited incentives for local production. Meanwhile, Liberia's rice market remains volatile: in early 2011, imported rice prices unexpectedly rose by 40 per cent, following serious shortages in neighboring Guinea.

In recent years, Liberian authorities have primarily relied on trade policy to mitigate price risk. In 2008, the government suspended the 10 per cent import tariff on rice; foregone customs revenue amounted to some \$8.4m in fiscal 2008/2009, a significant loss for a fragile country. Although the policy was intended to be temporary, it has remained in place as of mid-2012. Authorities encouraged traders to draw on rice stocks in 2008 in order to wait

out the crisis, bringing local inventories to dangerously low levels. Attempts to control the price of low-grade imported rice and restrict re-exports of the commodity were made. Problematically, these measures failed to stop price increases, as the price of a 50kg bag of imported rice had risen by 40 to 45 per cent since May 2008.

In a context of strong import dependency and poor competitiveness, the government has limited means to hedge against the risk of increased rice prices in a volatile global market. In order to resolve the policy impasse, Liberia could pursue the following avenues: increase trade integration with Côte d'Ivoire, diversify rice supply sources, develop the market for cassava products, improve the policy environment for local rice production, and/or develop safety nets.

REGIONAL FOCUS: THE MERCOSUR REGION OF SOUTH AMERICA

Alvaro Durand-Morat, University of Arkansas

The MERCOSUR region (the founding members of which are Argentina, Brazil, Paraguay and Uruguay) holds great potential to expand rice production and improve its net-exporting position, and hence enhance the food security situation of the region into the future. In fact, MERCOSUR more than tripled its rice exports over the last decade while global trade expanded only 25 percent, resulting in a significant three-fold increase in its global market share.

Brazil is by far the largest rice producer and consumer in the region (roughly 82

percent and 95 percent of the total for the region, respectively). Rice is a matter of food security in Brazil, which has maintained a policy of self-sufficiency for decades. The prime policy over the last years has been the Subsidy Auction Program (Prêmio para Escoamento do Produto, PEP), which guarantees a minimum support price (MSP) for rice, conditional on the government dictating the destination of the auctioned output. Despite the potential stabilizing effect of a MSP policy, the minimum guaranteed price has consistently been below the production cost over the last five years, and even in some instances below the market price (e.g. 2007/08 through 2009/10). The situation continues into the 2011/12 season, which raises concerns about the resilience of rice production in Brazil after more than 5 years of running economic losses and the improving prospects of competing crops.

Uruguay and, to a lesser extent, Argentina and Paraguay, significantly depends on their competitiveness in the international market as they have clear net-exporting positions, with over 90 percent of total production being exported from Uruguay and 67 percent from the other two countries.

Stakeholders must continue working towards increasing the efficiency and sustainability in the use of the resources, investing in R&D and infrastructure, and pursuing more transparent policy environments in which enterprises and commerce can flourish.

ABOUT FARMD

The Forum for Agricultural Risk Management in Development (FARMD) is a network of practitioners seeking to enhance the sharing of experience and knowledge in agricultural risk management. In time, the network will evolve from being a platform for sharing experiences and information to become a forum for learning, capacity building, and advancing knowledge in agricultural risk management. By improving the practice of agricultural risk management, the network seeks to optimize investments in the agricultural sector and reduce vulnerabilities of stakeholders. As a moving and constantly evolving forum, FARMD aims to provide an ever-changing platform for the exchange and promotion of knowledge on various subjects linked to agricultural risk management.