



Special Report

Cereal Prices and Government of Tajikistan Sale of Cereals¹

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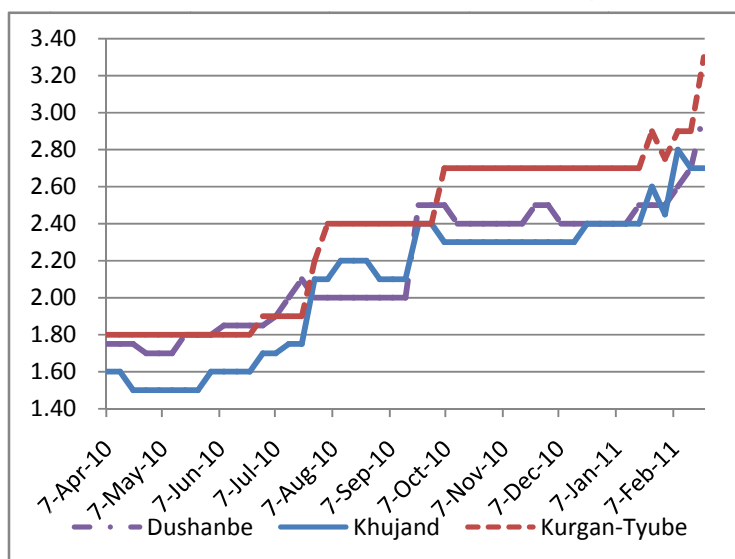
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This report provides a summary review of the impact of the recent sales of security stocks by the Government of Tajikistan on prices and discusses issues related to high, and likely increasing, cereal and other commodity prices in the coming months.

Impact of Government Commodity Sales on Prices

In response to steep increases in the prices of basic commodities, the Government announced plans in early February to sell wheat flour, sugar and rice from the Government's stocks to lower prices. As indicated in the following graph, wheat flour prices did drop in Khujand and Kurgan-Tyube, but only flattened in Dushanbe, at the time of the sales.

Wheat Flour, 1st Grade, Somoni per kg



Since the sales, prices have continued to climb in Kurgan-Tyube and Dushanbe, but appear to have leveled off in Khujand, as of the last week of February.

At the same time, wheat flour prices are at the highest levels (in unadjusted terms) in the past ten years. Wheat flour prices are 76% higher in Dushanbe, 80% higher in Khujand and 83% higher in Kurgan-Tyube than in April 2010.

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Reports indicate that the Government plans further actions to attempt to limit the impact of price increases, including a decision by the city administration in Dushanbe to provide 12 million Somoni (\$3.6 million) in loans to procure food,² and instructions by the President of the Tajikistan to curb food price increases.³

Options Available to the Government

In fact, the government may have limited options to stop the increase in prices. It is clear that part of the impetus for price increases is coming from global factors outside the control of the Government. It is also likely that some of the upward pressure in prices is the result of growth in disposable income funded by remittances, which were at the second highest level in Tajikistan's history in 2010.

To have a sustained impact, the Government would need to regularly provide substantial quantities of commodities to the market at below market prices to blunt upward pressure on prices. Such an intervention would be costly and could have the perverse impact of slowing commercial imports, since the reduced prices in Tajikistan would make it unprofitable to purchase at global prices and sell for less within the country.

Other options available to the Government to reduce prices include (1) reducing taxes and import duties, (2) reducing operating costs by suspending fees for selling in markets and other transaction costs and (3) provide subsidies to commercial importers of key commodities. The down-side of these interventions includes a loss of income at a time when the Government is facing budgetary pressures.

The Human Impact of Price Increases

The human impact of the price increases is, as yet, circumstantial. Although there have been food security assessment reports indicating food security problems in parts of the country, these problems appear to arise from a variety of sources and not specifically or predominantly from the recent significant increase in prices.

In theory, if remittances and other income keep pace with increases in prices, then the general impact on food consumption and food security should not be significant. On the other hand, those without increasing income, from remittances or other sources, will be hard pressed to maintain food consumption and food security in the face of dramatically increasing prices.

Humanitarian Response to Price Increases

Dealing with the impact of high prices on those with limited incomes is not normally the focus of humanitarian assistance. While food shortages can be addressed through the provision of food, in something which humanitarian organizations have considerable experience, absolute shortages of food in the market do not appear to be the problem in Tajikistan as yet.

² <http://news.tj/en/news/dushanbe-municipal-government-allocates-12-mln-somoni-curb-food-price-hike>
<http://news.tj/en/news/dushanbe-s-municipal-government-allocates-additional-4-mln-somoni-food-purchases>

³ <http://news.tj/en/news/president-urges-relevant-officials-take-measure-curb-food-price-hike>

As noted, the Government's options to lower food prices are limited, and could potentially lead to actual food supply shortages and the "under the table" sales at unofficial prices. Conceptually, the simplest short term solution is to increase the disposable income of those who are losing the ability to purchase adequate food due to increasing prices. This can be done through such mechanisms as increasing safety net payments (e.g., pension and disability payments) or through labor intense public works activities.

In fact, the International Monetary Fund recommended additional support to social safety nets in Tajikistan in their communiqué following a recent staff visit.⁴ There are numerous opportunities for infrastructure-focused labor intensive public works in Tajikistan, although such project would need to be designed in a gender-appropriate manner given the high level of male labor migration.

What is Next?

Clearly, continued monitoring of prices, remittances and earning conditions in labor migration destinations is important. However, price-driven food insecurity is a slow process of accumulative impacts from reduced food consumption or a poor diet.

Such crises tend to build up slowly and become manifest in a dramatic and rapid manner. Unfortunately, when such price-driven food insecurity does become evident there is usually relatively little time to mobilize humanitarian assistance to blunt the impact of the crisis.

At this stage it is important to more closely monitor individual and household-level food consumption and disposable income to better understand who, and whether, food insecurity is increasing as prices increase. It is also prudent to investigate response options, including ways to increase income of the most likely vulnerable through safety net and labor intensive public works activities.

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⁴ See <http://www.imf.org/external/np/sec/pr/2011/pr1161.htm>.