

# **PRICE VOLATILITY AND PRODUCTION INSTABILITIES IN CAMEROON'S AGRICULTURAL SECTOR**

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**ARTICLE**

September 2017



With the advent of the African food crisis in 2007-2008, attention has been focused on the food price differences across various African countries, all in a bid to mitigate the negative effects of price fluctuations. Price volatility refers to sudden, unexpected large price variations. Factor inputs like technology coupled with increased competition for arable land as well as other land uses are seen to affect the volume of local harvests, thus, affecting the prices of locally produced food and cash crops in Cameroon. Other factors such as seasonal differences, local economic conditions and geographical locations affect agricultural harvests and prices across different regions.

Cameroon is one of the developing countries, strongly affected by the food crisis. This is largely because Cameroon is primarily an agro-based economy. Almost 70% of the population is engaged in agriculture and allied activities. This suggests that this sub-sector, indisputably, occupies a strategic place in the national economy in terms of foreign exchange earnings (\$USD 5 billion, export revenues, 2015 figures), employment generation (42.6% of workforce till date), wealth creation, social stability, food security, food self-sufficiency and poverty alleviation. Because of its overwhelming potential, agriculture in Cameroon is the wisest pursuit. However, most farmers are faced with varied production risks, the main one being commodity price fluctuations.

Most basic food crops and cash crops in the country in recent years have experienced drastic price fluctuations and production instabilities; products such as Cocoa, Rice and tomatoes amongst others.

In 2013, rice prices saw drastic fluctuations from 14,000 FCFA to 16,000FCFA for a bag of 50kg within the space of weeks, an increase of 2,000 FCFA. Attributed to the higher national demand (estimated at 300 000 tones) compared to supply (estimated at a maximum of 100,000 tons). These prices were far higher than prices in 2012 when a bag of 50kg sold at approximately 10,000 FCFA. Equally, the year 2015, saw a change in this price to approximately 15,000FCFA per bag of 50kg and this, for the past two years has experienced constant up and down fluctuations.

Cocoa is one of the products that dominate the agricultural sector of Cameroon. In 2012, Cocoa exports constituted 10% of Cameroon's agricultural export portfolio. However, price variations in this sector is alarming: in 2015, bean prices were between 1500-1700 FCFA per kg. This dropped to 1200-1600 FCFA per kg and even a greater transition in 2017 with prices ranging between 700 – 960 FCFA per kg, according to statistics compiled by the cocoa and coffee board

In the same light, fluctuating price trends in tomatoes (a daily-consumed fruit in most households in Cameroon) production has been observed in the past years. In 2015, a crate of tomatoes was between 5,000 – 15,000 FCFA. This price changed since then to 3,500 – 10,000 FCFA in 2016. More so, in August 2017, excess rainfall (reaching, 285mm; 11 inches), led to rapid rotting of substantial quantities of tomatoes in various production areas in Cameroon. This situation created a drop in supply, and as a result an increase in market prices. In Yaoundé for example, the price of a crate of tomatoes currently ranges between 11,000 FCFA and 12,000. This is a massive increase from 2016 prices.

There are several factors, which could lead to these price fluctuations and should be taken into consideration if the issue has to be resolved. Looking at cocoa production, the declining trend of its prices is a result of over production and a decline in demand from processors. Hence the differences in supply (high) and demand (low) has caused increasing cocoa price fluctuations. This is equally the case with tomatoes production, with variations in seasons, there is bound to be a variation in production which causes a variation in output and prices. Several other factors have caused food price fluctuations in the country, which include among others: population growth, policies & institutions, energy prices, input factors and weather changes.

**Population Growth:** The total population in Cameroon as per 2014 estimates stood at 22.83 million people. This figure increased to 23.44 million in 2016 according to the latest census figures. Looking back, to the year 2010, the population stood at 19.97 million people. This implies a 17.37% population increase between 2010 and 2016. These figures a continuous increase in the country's population along the years hence increase in the demand for agricultural products and increase pressure on the countries resources. Most often, this increased demand is not backed by increases in production and hence this leads to an increase in agricultural prices.

**Policies and Institutions:** For the proper functioning of the agricultural sector/market, there is a need for adequate policies and institutions which encourage production and pricing of agricultural outputs. Policies related to property rights of land, export and import as well as market intervention of government institutions. The infrastructure and the overall production environment affect both supply and consumption. In Cameroon, there are several bodies put in place to regulate the agricultural activities such as common initiative groups, market organizations, as well as ministerial bodies. However, little or no transparency, constant changes in the structure and functioning of these bodies have led to production inconsistencies and hence fluctuations in prices.

**Energy Prices:** The price of energy affects the demand and supply of agricultural products. Cameroon has been experiencing some fluctuations in energy prices. This has equally affected the pricing of agricultural outputs. For example, increasing energy prices increases the cost of production especially in transformation and processing of agricultural products. This translates to increases in prices of the final products. Equally, fluctuations in energy prices lead to fluctuations in agricultural input prices such as fertilizers hence fluctuations in production and price of final output. It is therefore important to regulate energy supply and prices in the country to avoid negative effects on agricultural production and prices.

**Weather changes:** Agricultural output supply in Cameroon is mostly based on rain fed agriculture and highly dependent on the weather. Weather variations is likely to be continuing as before or even becoming more frequent most probably due to climate change. Weather variation creates variability and price fluctuations as it alters production and harvest cycles. This usually drive up and down the prices of some of these agricultural

output. There is therefore a need to construct modern and sustainable irrigation facilities in order to regulate production in and out of the farming season. This will go a long way to stabilize prices.

The consequences of price fluctuations on Cameroon's economy are enormous: it leads to inconsistent decisions and poor institutional policies. Extreme volatility in prices deters producers from making the necessary investments to increasing productivity and output hence, has a negative impact on their sales, profit margins and their livelihoods; it distorts decisions on what and when to plant. Equally, it makes it difficult for farm organizations that market produce collectively to choose when to release stocks and which purchase price to set for members.

At the household level, it hinders proper planning and use of resources. Food accounts for a very high share of the total budget of the poorest households. Because poor households often consume foods that are less processed the effect of increments in commodity prices is felt more strongly. These households find their nutrition status as well as their capacity to access education, health care, or other basic needs compromised, when food prices are high. Equally, price fluctuations distorts producer market predictions, productions and hence a waste of recourses which negatively affects profitability. In addition, it has placed the country in a vulnerable position (low predictive powers and market influence) in the international market in terms of exports and imports hence reducing her earnings.

However, not all price variations are problematic, such as when prices move along a smooth and well-established trend or when they exhibit a typical and well known seasonal pattern. But variations in prices become problematic when they are large and cannot be anticipated and, as a result, create high levels of uncertainty which increases risks for producers, traders, consumers and governments and may lead to sub-optimal decisions.

In Cameroon, it is paramount to take actions aimed at mitigating the risk of frequent price movements due to the relative importance of agricultural products on the country's economy. Long term actions to reduce price fluctuations are to: secure production possibilities by improvements in institutions related to agriculture- such as credit facilities, input providers and farm organizations. Risk management tools need to be mainstreamed into agricultural policies and programs.

Property rights should be clearly defined; this will ensure security in production activities, stable long-term production and agricultural development. Government should establish proper regulation of domestic markets for agricultural inputs and outputs. The access to inputs should be improved especially to such factors that might require infrastructure investments like water for irrigation and roads for transportation. The irrigation canals created have to be regularly monitored and maintained in order to avoid the negative impacts of irrigation (such as over flooding). Boosting storage capacity. Making provisions for storage during peak seasons thereby avoiding losses hence, reducing price hikes. Create appropriate trading institutions and improve existing ones. Government should equally avoid temporary support measures (Measures such as buying of farm tools for farmers). Instead, long term measures should be embarked upon

(subsidized technical training programs for farmers on the use of modern farm methods and equipments such as green house farming as well as providing tractor services to farms at subsidized rates). Improve management skills (especially financial management and risk management) in agriculture to improve farm production and productivity in the long term. In addition, the industrialization of agriculture, highly mechanized production and the opening up of intensive food transformation companies should be encouraged in order to improve productivity, avoid massive importation and increase export earnings. These measures will, to a large extent increase predictive powers and create some degree of control over market prices for agricultural products, hence, reducing price volatility and production instabilities in the sector.



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