

Rising World Food Prices and their Implications for Food Security Policy in Southern Africa



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Outline

- Food Situation in SADC Countries
- Setting the Context: Rising prices hurting the poor the most
- Why the Concern Now on Food Price Increases?
- Global and Southern Africa Price Increase Magnitudes
- Country Specific Cases
- Causal Factors—global and region
- Possible Responses
 - short run
 - long term
- Conclusions

Objectives

- Examine the causes and consequences of the food crisis with special reference to southern Africa
- Suggest possible short and long term solutions and investment priorities with specific reference to reducing the negative impacts on the poor

Some Facts on SADC Food Production and Consumption Trends (1)

- Actual cereal production levels stagnated between 1990 and 2006
- 1990→production 22.0mil tons→152 mil people
- 2006→production 23.6 mil tons→249 mil people
- Per capita food consumption from domestic production dropped from 145kg in 1990 to 95kg in 2006
- Lowest level of cereal imports→4mil tons in 2001-2002 (Ref Mauritius International Conference on Poverty and Development)

Some Facts on SADC Food Production and Consumption Trends (2)

- Average per capita dietary supplies have declined over the last 25 years to 2,160Kcal against recommended 2,760 Kcal
- Protein decreased to 49gm per person from the recommended 68gm per day

Why have world food prices risen so dramatically in 2007-2008?

- Initial explanations – structural shifts in world food supply and demand:
 - Rising incomes in large middle-income countries (e.g., China, India)
 - US bio-fuels policy
 - Climate change (e.g. recurrent drought in Australia)
 - Commodity price speculation
 - Lowest global stocks in 20 years
- More recent explanations acknowledge these structural shifts but also include:
 - US sub-prime crisis and expansionary US monetary policy starting in mid-2007

Why is the phenomenon unique?

Globally:

- The rise is phenomenal—highest in 20 years
- Prices shot up 40% in 2007
- Prices went up 16% in Jan and Feb 2008
- Prices roughly doubled in last 5 years

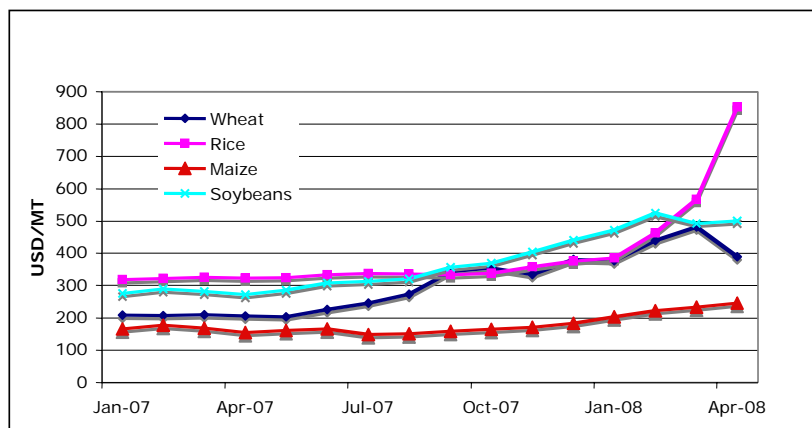
Southern Africa:

- Prices have also increased but at a slower pace

Global: Commodity Specific Price Increases Since Jan 2007

- Maize: 59%
- Wheat: 88%
- Soybeans: 85%
- Rice : 165%

Figure 1: World Crop Prices - 2007-08



General Impacts

- Price increase transmitted to domestic markets around the world
- Causing severe pain, panic and discontent
- Ignited protests and riots in more than 40 countries

Figure 2: US Use of Maize for Ethanol Production - 1990-2007

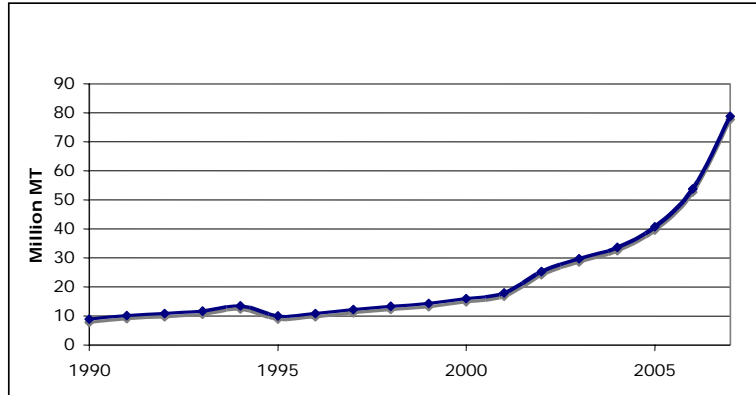


Figure 3: World Grain Stocks - 1960-2007

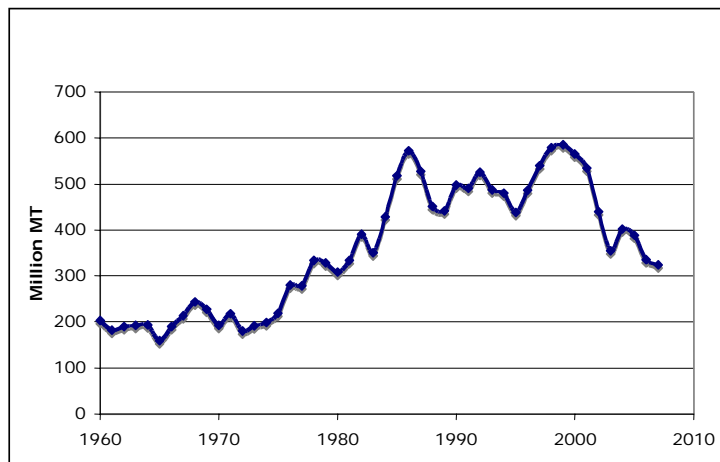


Figure 4: Global and Southern African Food Price Indices-2007-2008

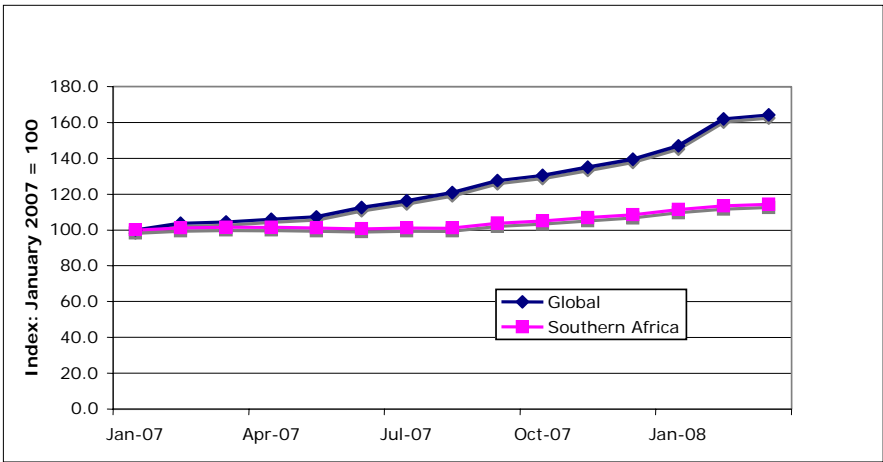
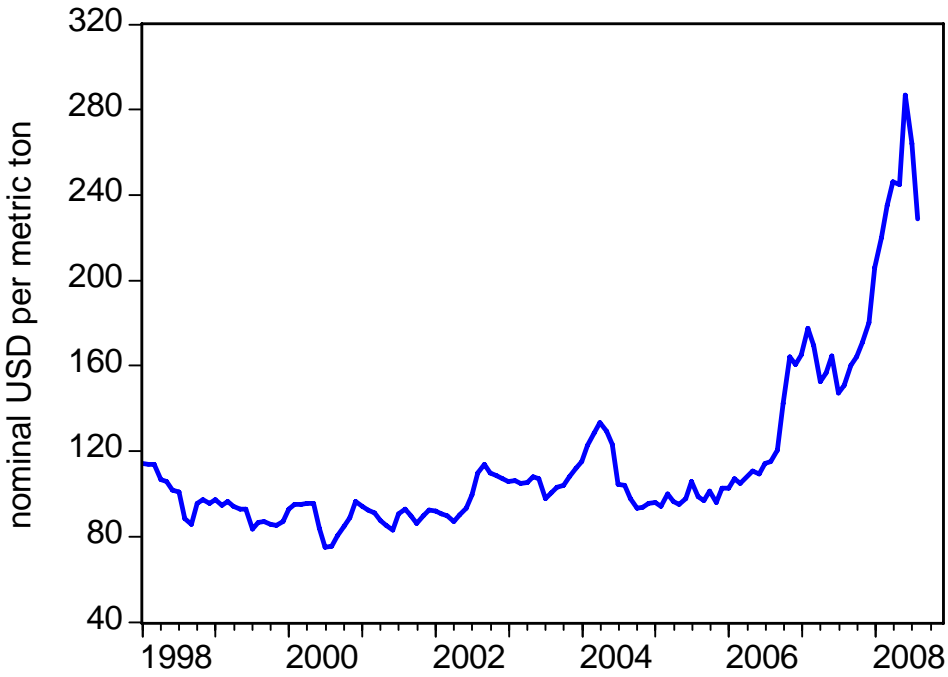
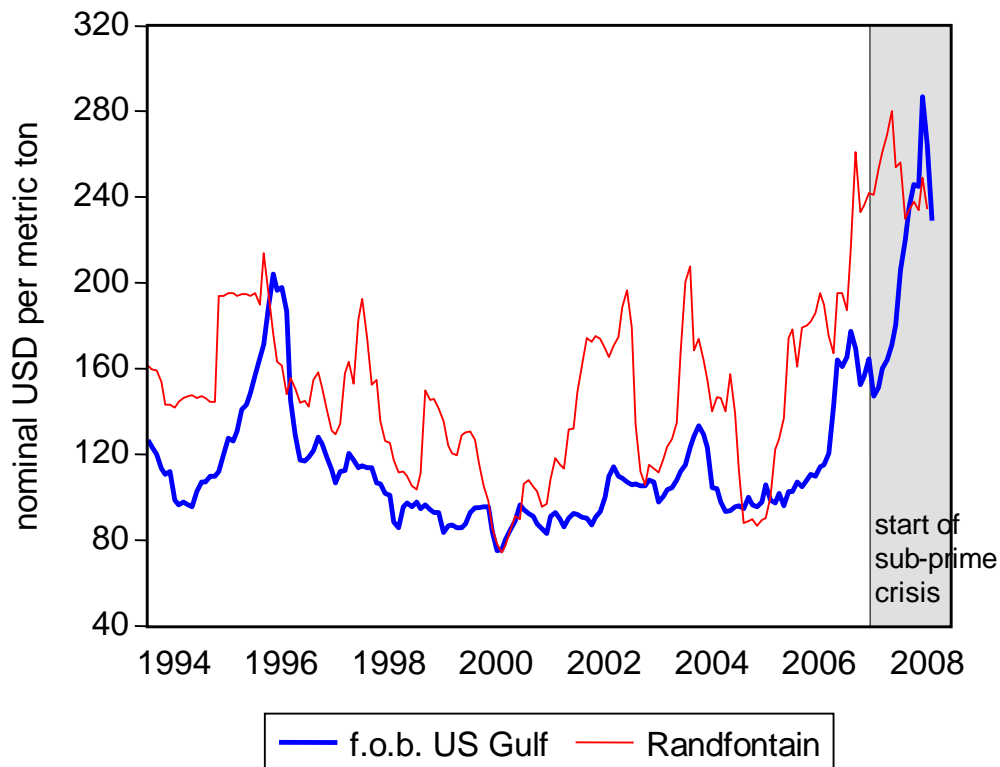


Figure 5. Trend in Maize Price, fob US Gulf





Trends in Food Prices in Eastern/Southern Africa

- Depends on price transmission
- There are at least 3 ways to assess price trends:
 1. in US dollars
 2. in nominal local currency units
 3. in inflation-adjusted local currency units

Upshot on food prices (1)

1. In local currency units, 2008 maize prices are very high, but comparable to levels seen before in past decade – Why?
 - HIPC, budget support, stable macro-economy (varies by country) → exchange rate appreciation against dollar → softening the food price rise
 - Official 2007 and 2008 crop estimates have been moderate to good (credible?)
 - Only partial price transmission of world prices to domestic markets in region
2. Hence, countries in the region will likely differ in terms of their exposure to rising global food prices

Upshot on food prices (2)

3. In current environment, food crises driven by reductions in purchasing power more so than production failure
 - Implications for food balance sheet approach
4. World supply response? Up till recently, policy in US, India and other countries has sought to limit grain output → great potential for ramped-up world production in 2-3 years

Will smallholder farmers be able to take advantage of higher grain prices?(1)

- Main determinants:
 - Access to land / farm structure
 - productive assets
 - input prices
 - access to markets
- Emerging land pressures are generating fundamental challenges for broad-based rural income growth

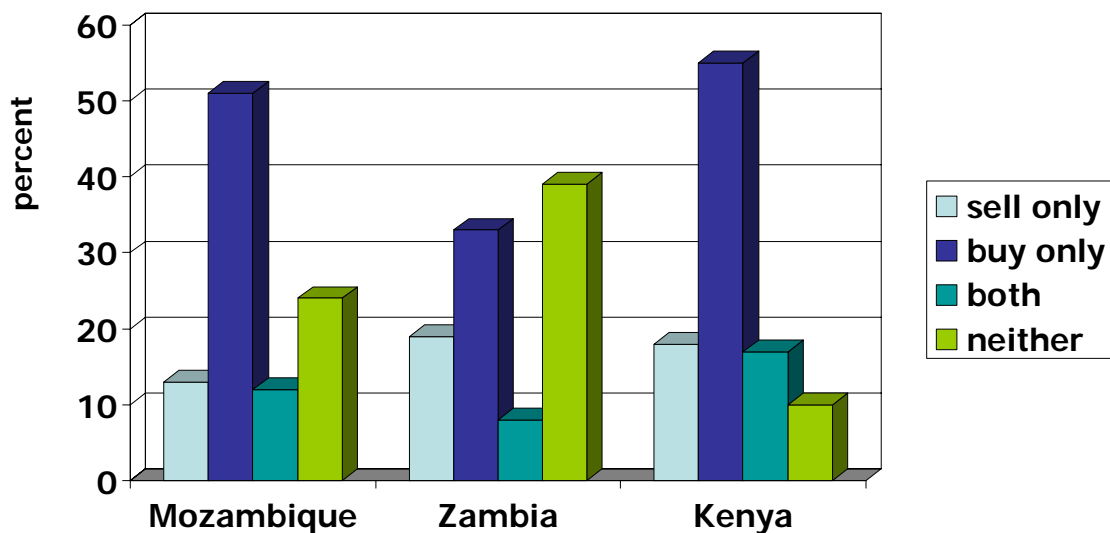
Will smallholder farmers be able to take advantage of higher grain prices?(2)

- Urban consumers likely to consume grains derived from tradable commodities (wheat and rice)
- Rural consumers more likely to consume staple foods—cassava, sorghum and millet
- Low income hh spending a large proportion of their income on tradable whose income has gone up will be most affected

Will smallholder farmers be able to take advantage of higher grain prices?(3)

- HH that derive large part of their income from prodn and sale of commodities whose price have gone up will gain
- The effect of hh that are both producers and consumers is ambiguous and will depend on the net position in the market and relative price changes for the different markets

Figure 7. Smallholder Households' Position in the Maize Market



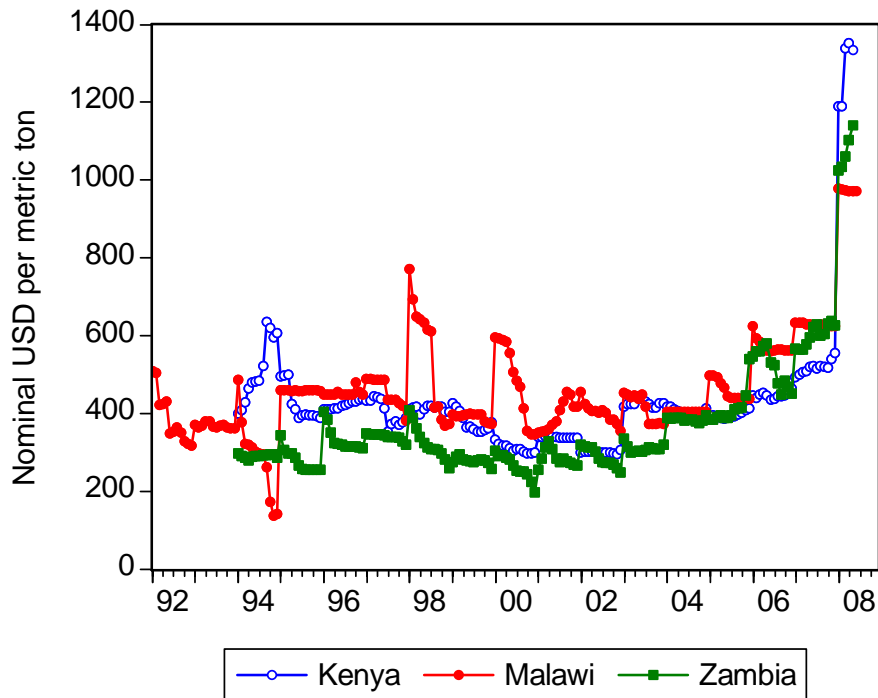
Characteristics of smallholder farmers, Zambia 2003/04

	N=	Farm size (ha)	Asset values (US\$)	Gr. Rev., maize sales (US\$)	Gr. Rev., crop sales (US\$)	Total hh income (US\$)
Top 50% of maize sales	31,328 (2%)	4.3	1,132	720	1163	2,932
Rest of maize sellers	328,561 (26%)	1.6	316	88	193	634
Households not selling maize	907,255 (72%)	0.9	231	0	97	415

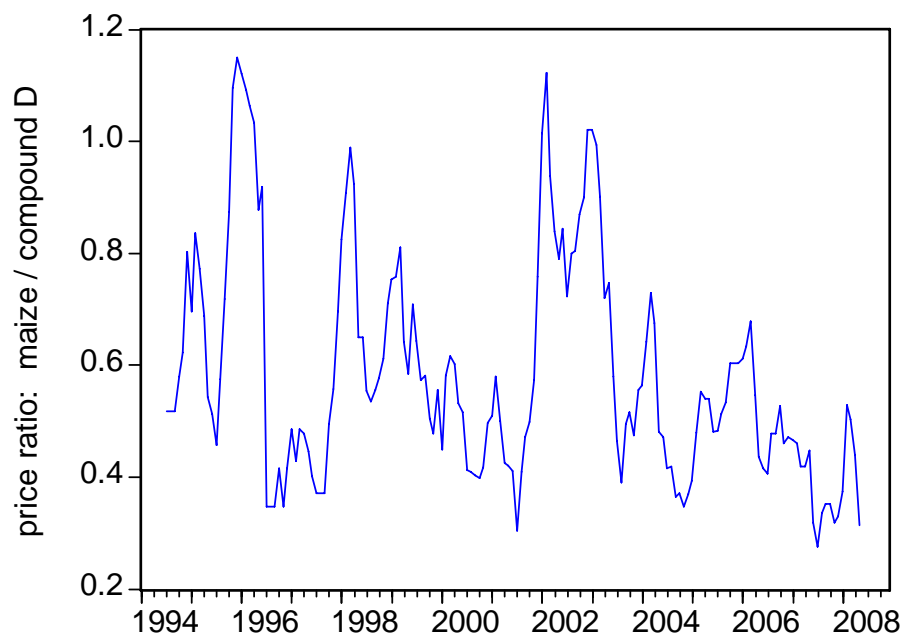
Impact on World Food Program

- From 2002-2007 the cost of procuring basic food increased by 50%
- From June 2007 to Feb 2008 the cost increased by another 50%
- The bottom billion could become the bottom 2 billion overnight, as those living on the 1 US\$ per day see their purchasing power cut in half (Josette Sheeran 2008)

Fertilizer price trends



Maize-fertilizer price ratios, Zambia



Upshot on smallholder behavior:

1. A small minority of relatively better-off farmers will be able to take advantage of higher food prices
2. Most smallholders, who are net buyers of food, and urban consumers, will be worse off
3. Rural and urban poverty rates likely to rise
4. Reduction in incentives to use fertilizer → yields down → increasingly likelihood of needing to import at high world prices
5. Shifts in cropping patterns toward staple food (including roots and tubers), away from export crops

Implications for food security policy?

The outcomes in E/S Africa will be influenced greatly by political response:

1. Future role of marketing boards and price stabilization
2. Input subsidy programs
3. Commitment to public goods investments
4. Commitment to open borders/regional trade
5. US/EU policy toward flexible food aid response (cash vs. food depending on situation)
6. US energy policy
7. US/EU agricultural and trade subsidy policies

Export bans and trade restrictions

- Generally doesn't stop trade from occurring but raising smuggling costs, which depress prices for farmers and raise costs for consumers
- Fact: only 5% of all grain imported by Africa countries comes from other African countries – 95% of imports is grown by farmers on other continents

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What about fertilizer?

- Major gains can be achieved by reducing the costs of delivering fertilizer to farmers and raising the efficiency of fertilizer use
 - Survey findings show wide variations in fertilizer use efficiency even within same village
- What about fertilizer subsidies?
 - Compelling on paper, but need to overcome political capture

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- As massive as the poverty problems are now, they will be much greater unless budgets are re-allocated sooner or later to investments that will make the economy productive in the long-term:
 - Population growth w/o productivity growth → civil strife
 - Not a viable option to have more and more “state failure” in Africa

Summary of Short and Long-term Interventions

Short Run Policy Options

- Social protection
- Consumer subsidies
- Tax and tariff policy
- Export restriction?

Long-Run Policy Options

- Revisit Public investment priorities
- Policy Reform and Institutional Innovations

[But the challenge is what should be different this time?]

Summing Up

1. Major distributional effects: relatively few will gain – many will lose
2. Poverty likely to rise
3. Greater urgency for good governance
 - political responses will greatly influence outcomes
4. Heightened importance of inter-linked macroeconomic factors and energy-food linkages in determining future food security in Africa and many other parts of the world.



thank you