

# Potential Food Security Impacts of Rising Commodity Prices in the Sahel

by  
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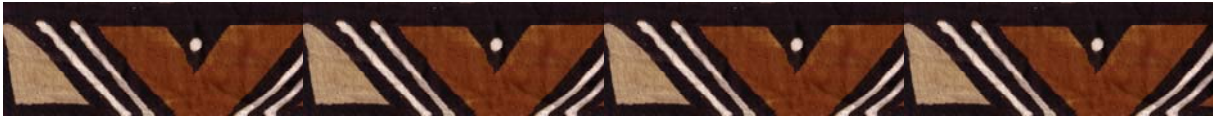


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## Road Map

- Review of the current situation and drivers
- Overview of available policy tools
- Fine tuning monitoring and analysis tools to better respond to the situation
- Possible scenarios for May through December and appropriate short-term responses
- Linking the short-term emergency response to the medium-term development goals
- Summing up: Three Biggest Challenges



## Current Situation

- Rising commodity prices world wide
- Recent increases in GDP growth rates in W. Africa (generally 5-7% in 2005 & 2006)
- High poverty rates (45% < \$1/day)
- Overall 2007/08 crop production good
- An inflationary context in the Sahel—led by food prices but not exclusively food based
- **The challenge:** To balance short-run responses to protect consumers from rising prices with longer-run development efforts



## Key Drivers: World

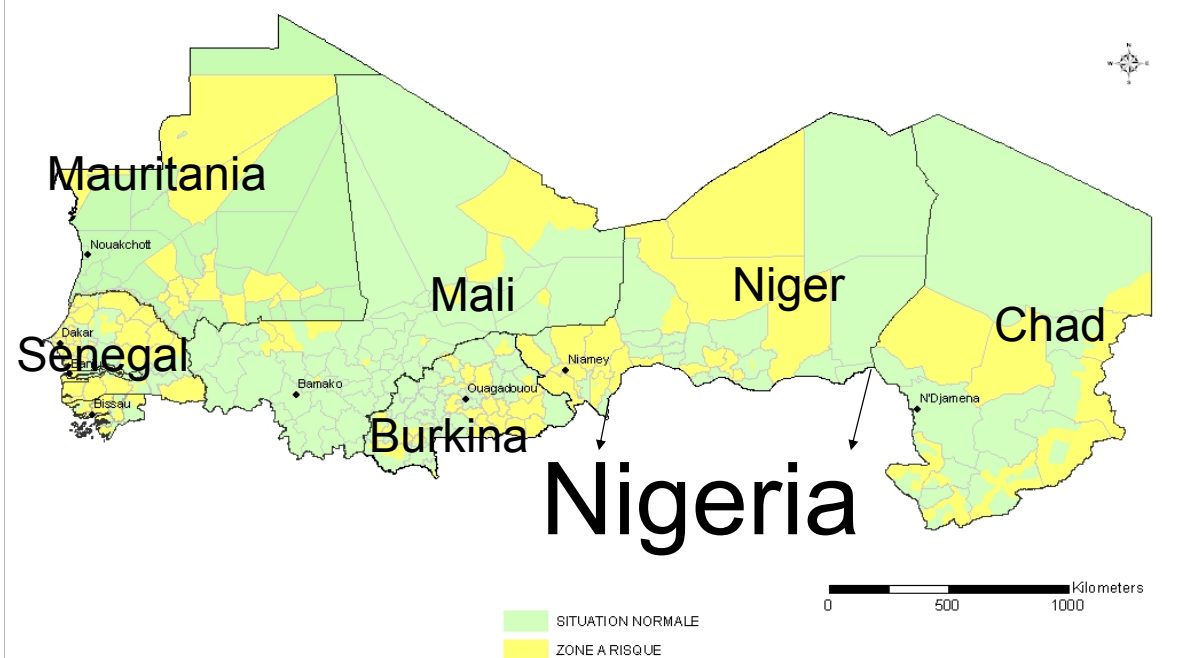
- World market prices are:
  - rising unusually fast,
  - more volatile,
  - greater duration of rise
  - greater breadth of products
- Why?
  - Weather
  - Declining world cereal stocks
  - Changing consumer demand (meat, poultry, dairy)
  - Rising energy prices → increased biofuel demand & increased agricultural input costs
  - Expansion of derivative markets in ag commodities
  - Export restrictions in Asian countries

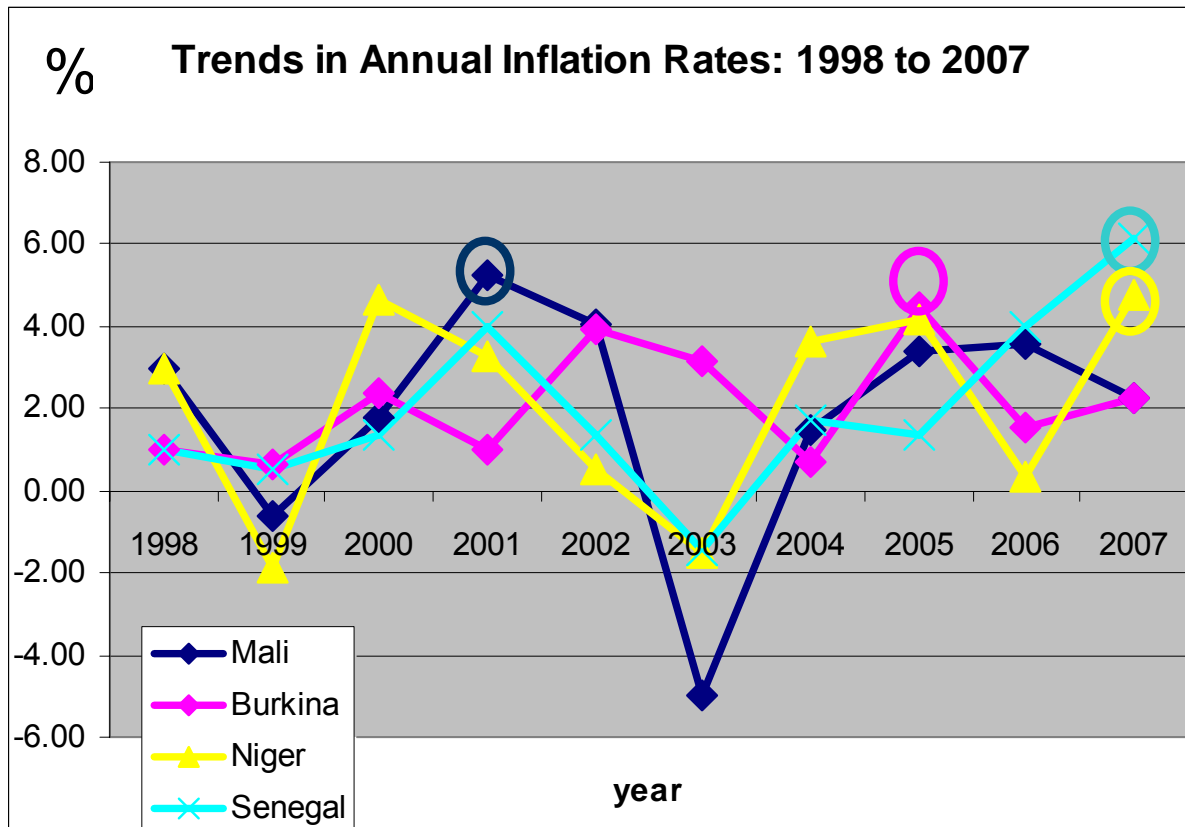
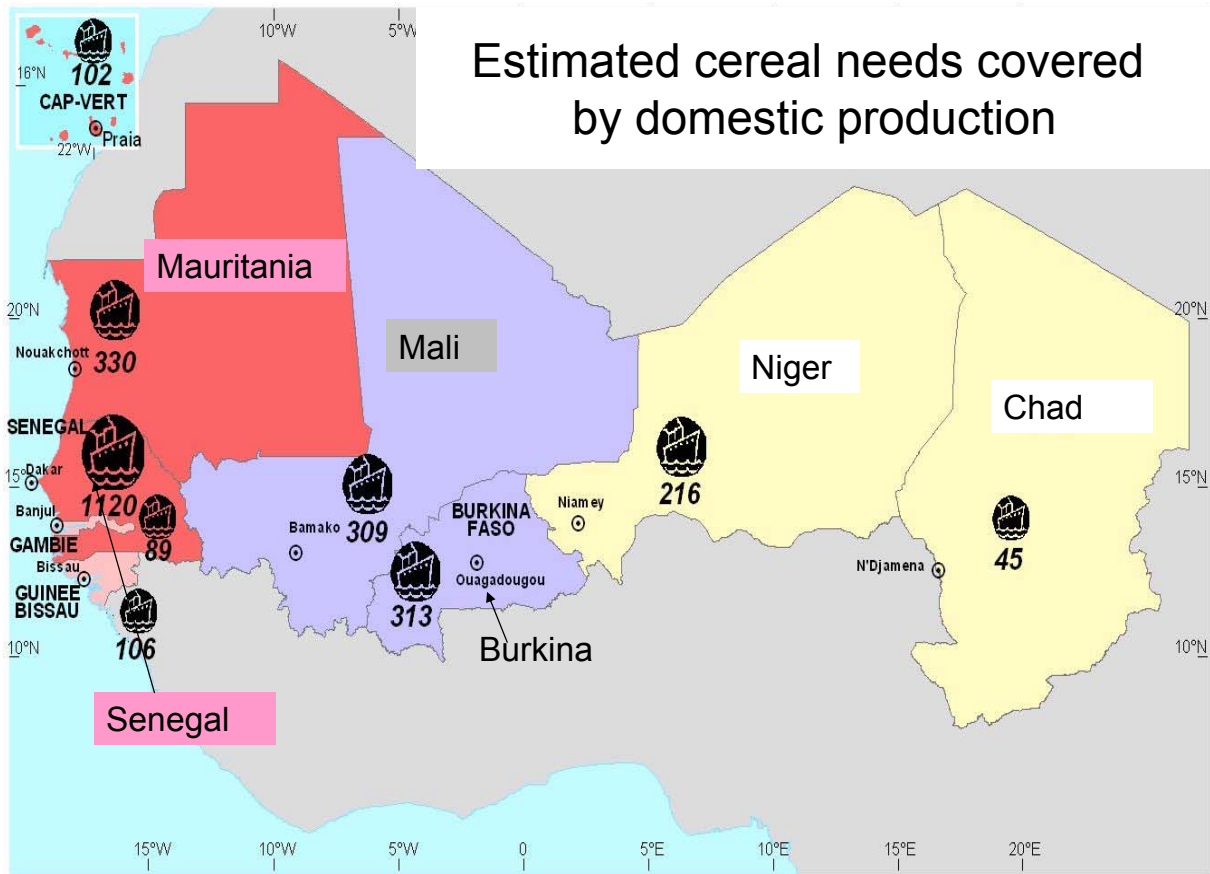


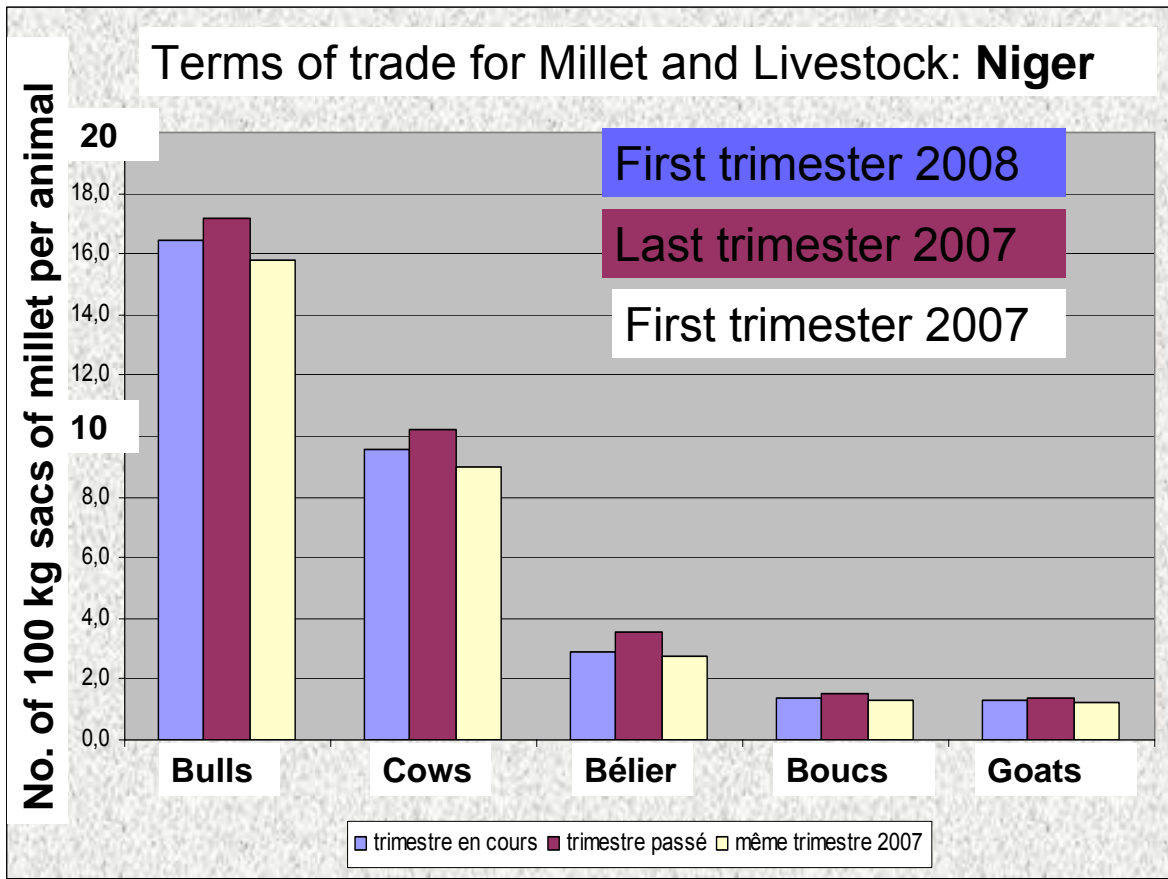
## Key Drivers: Sahel

- Import-dependent countries
  - Production shortfalls
  - Export bans by neighbors
  - Rising import bills slowing down flow of cereal imports
  - Urbanization and changing consumption patterns
- Cereal-surplus countries
  - Localized production shortfalls
  - Strong demand and good prices for livestock
  - Cereal export bans
  - Speculation in response to uncertain policies
  - Urbanization and changing consumption patterns
- Nigeria
  - A giant by comparison to its Sahelian neighbors
  - Production shortfall in north
  - Strong demand for cereals by beer and poultry industries

## Sahelian Cereal Production







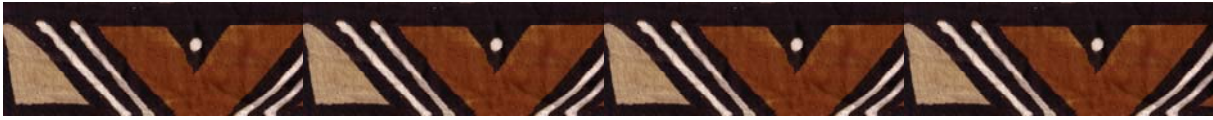
## Available Policy Tools: Price Reducing

### Tools (relevant criteria)

- Tariffs/VAT (2-5)
- Subsidies/rations
  - Generalized (3, 4)
  - Targeted (1-3)
- Release stocks (2, 4)
- Export restrictions (4)
- Prod. price controls (0)

### Evaluation Criteria

1. Targets vulnerable
2. Preserves incentives
3. Costs contained
4. Easy to implement
5. Limited mgt/governance concerns



## Available Policy Tools: Safety Net

### Tools (relevant criteria)

### Evaluation Criteria

- Targeted cash transfers (1-3,5)
- Food for work (1-3)
- Food aid (1,3,4)
- Feeding/nutrition program (2,3)

1. Targets vulnerable
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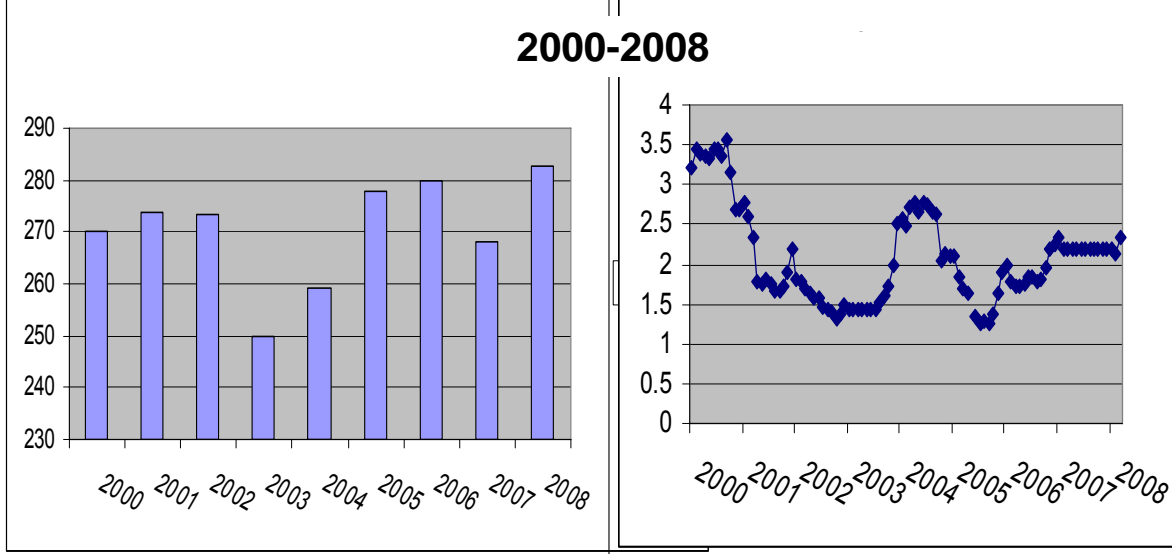


## Responding with Improved Monitoring & Analysis

- Crop estimates
- Market prices and flows
- Stock data
- Changes in relative prices
- Exchange rates
- Government budgets, ForEx, credit
- Identifying vulnerable groups
  - Urban
  - Rural
- Short and medium-run market outlook forecasts

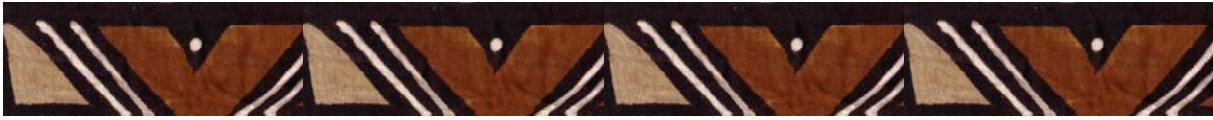
**Rice/Civil Servant  
Salary Index: Bamako**

**Rice/Millet Price Index:  
Bamako**



<b>Producer Prices of Cotton: Burkina Faso and Mali</b>				
	<b>Burkina</b>		<b>Mali</b>	
<b>Season</b>	<b>Nominal</b>	<b>Real*</b>	<b>Nominal</b>	<b>Real*</b>
<b>(CFA F/kg of seed cotton)</b>				
2004/05	210	210	210	210
2005/06	175	165	160	153
2006/07	165	158	165	154
2007/08	145	130	160	144
2008/09	165	not avail.	200	not avail.

\* Base = 2005; using CPI for January of marketing year as deflator



# Possible Scenarios

## World Market Cereal Prices: May-December

		Declining	High or Increasing
Rainfall & Harvest Predictions	Good	Net price impact Opportunities Dangers	
	Bad		

# Best-Case Scenario

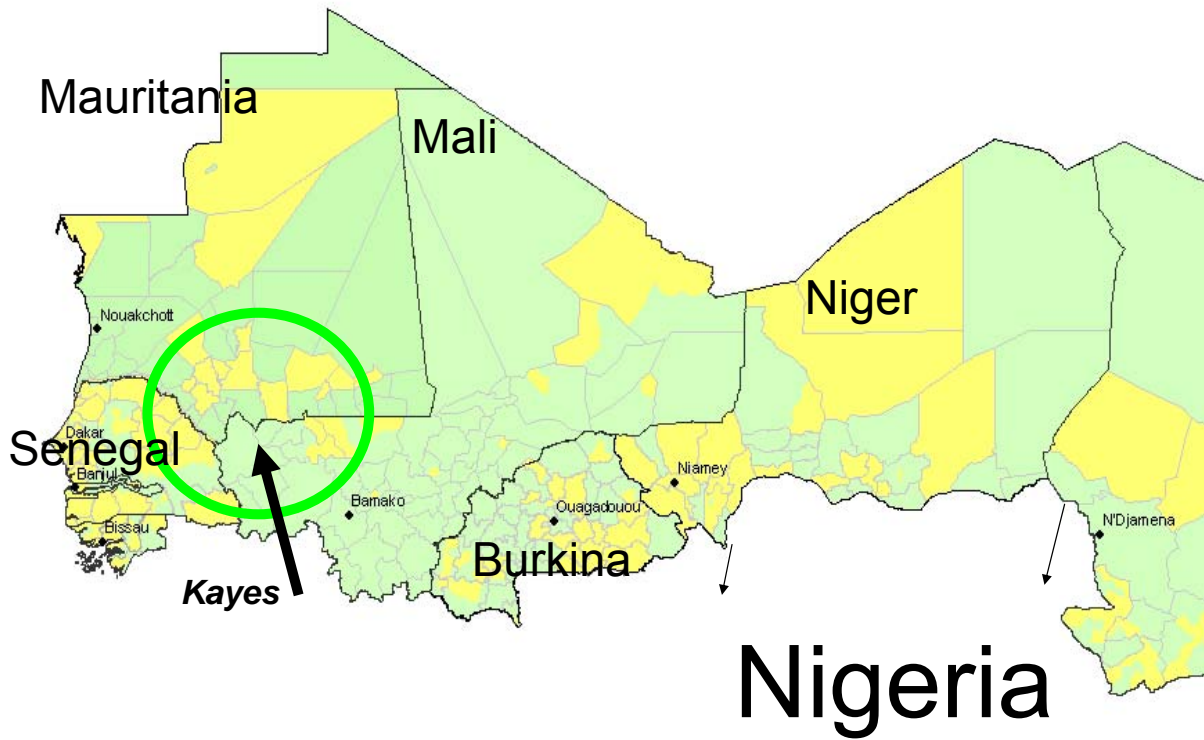


## World Market Cereal Prices: May-December

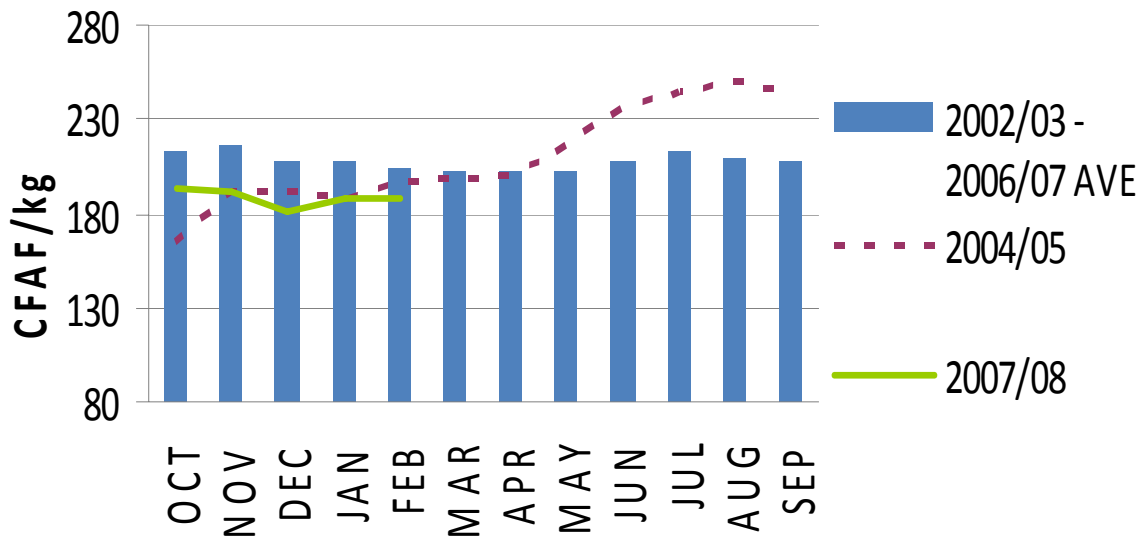
		Declining
Rainfall & Harvest Predictions	Good	<p><b>Production stimulus:</b> top dressings, inputs for work or “work delayed”</p> <p><b>Rebuild food security stocks:</b>            National: favor regional over imports when possible            Rural: community storage programs</p> <p><b>Reinstate suspended tariffs and taxes:</b>            Build revenue            Timing is an issue, often linked to competition in market</p> <p><b>Targeted safety nets:</b> still needed during season for net cereal buyers in zones with 2007/08 shortfalls; after the harvest very poor still vulnerable; probably more urban than rural</p> <p><b>Remove export bans:</b> Mali first to aid Mauritania/Senegal</p>
	Bad	



# Best-Case Scenario



## Millet: Nominal retail prices in Kayes, Mali



# “Second Best” Case Scenario

## World Market Cereal Prices: May-December

High or Rising

Rainfall & Harvest  
Predictions

Good

**Production stimulus:** even more vigorous promotion of top dressings, inputs for “work delayed”

**Export bans:** More difficult to remove. Government to Government negotiations within region.

**Food security stocks:** Rebuild using domestic and regional purchases in high surplus zones but monitor impact on prices; if truly bumper harvest may need to support prices; encourage community storage programs.

**Tax policies:** Depends on degree of import-dependence. Mali/Burkina/Niger: reinstate as soon as harvest available Senegal/Mauritania: Later or with targeted safety net

**Safety nets:** after harvest will need more focus on urban than rural if rice/bread consumption difficult to change

# Pretty Bad Scenario

## World Market Cereal Prices: May-December

Declining

Rainfall & Harvest  
Predictions

Bad

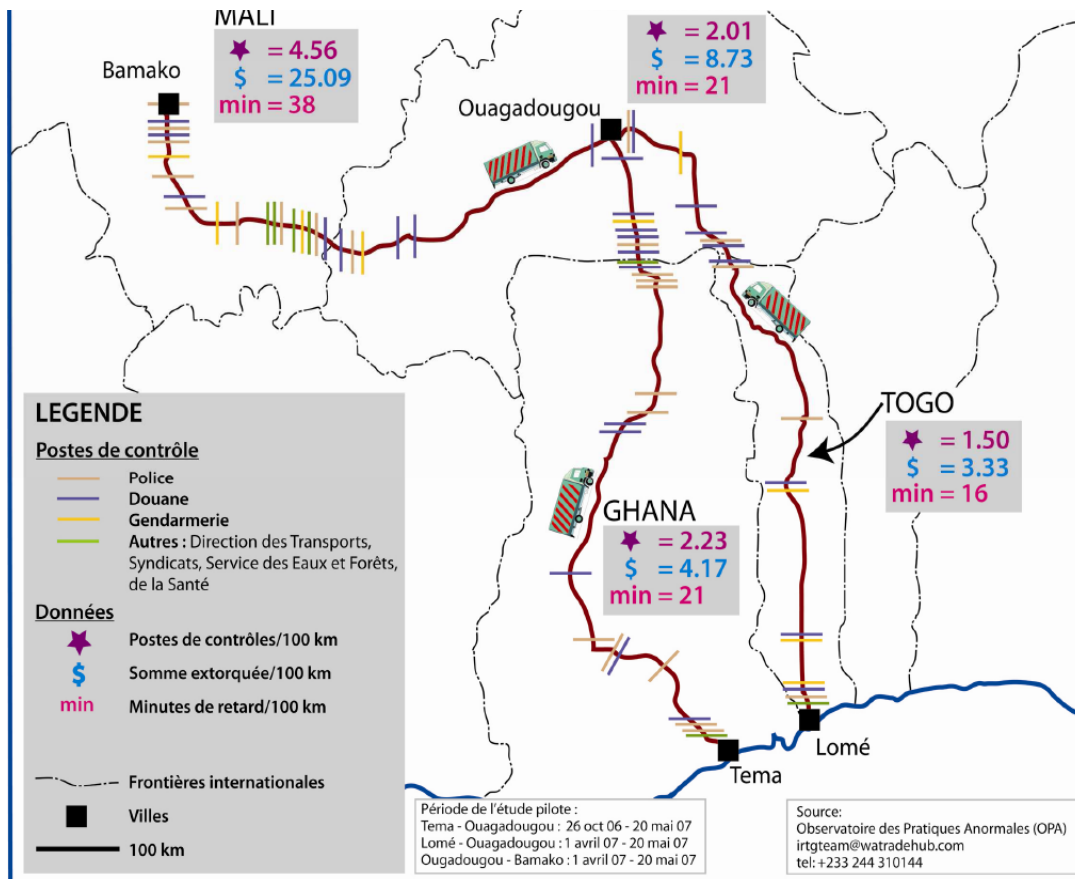
**Production:** Off season focus for cereals plus high value crops; livestock may need help with feed; input suppliers may need help with carry over stocks; poultry not clear.

**Export bans:** Difficult to remove; pursue bilateral options (e.g., Senegal/Mali investment for cereals).

**Import facilitation:**

International: improve competition and credit

Regional: Crack down on illicit road taxes



## Worst-Case Scenario

### World Market Cereal Prices: May-December

#### High or Rising

#### Rainfall & Harvest Predictions

**Bad**

**Follow previous recommendations at more intensive levels, particularly for dry season activities, but**  
 Where 'bad' season occurs matters  
**If Mali/Burkina/Niger are ok**—pursue bilateral agreements  
**If Mali/Burkina/Niger not ok**, all will need international assistance; IMF food import facility, food aid.  
**If Nigeria bad but Sahel just ok**, close borders???

**Continue tax holiday** (will affect government balance sheet but will be very difficult to lift)  
**Better targeting** of other programs may be needed, but needs will also be greater so international assistance needed



## Medium-Term Considerations: Avoid

- Weakening capacity of private sector to respond after the crisis
  - Unreasonable price controls that cause losses
  - Food/input sales by government/donors that compete unfairly with private sector
  - Over-reaction to urban needs at the expense of rural needs
- Creating policy uncertainty



## Medium-Term Considerations: To Do

- Promote agricultural sector growth
- Develop appropriate strategies
  - Is rice self-sufficiency for Senegal the answer?
  - Is subsidized fertilizer what is needed to revive rice production in Mali's Office du Niger?
  - What is the appropriate balance between irrigation and SWC investment (taking into account implications for food production and improving income distribution)?
- Need to move to more micro level and develop different strategies for different zones within each country, keeping in mind opportunities for regional trade



## Biggest SR Challenges = Biggest LR Challenges

- Dealing with a demand driven rather than a supply driven food security problem
  - Are the traditional cereal balance sheets of needs vs. supply still useful?
  - Understanding substitution in consumption
  - Dealing with both urban and rural vulnerable
- Realizing the potential of regional trade given:
  - Uneven purchasing power in the region
  - Increasing costs of transport
- Stimulating supply while addressing needs of consumers



## Medium-Term Considerations: Typical Strategy Components

- Promote efficient marketing and use of inputs
  - Extension
  - Research
- Credit for farmers and supply chain
- Irrigation and SWC
- Processing of local cereals
- Production and price risk mitigation
- Regional trade