Potential Food Security Impacts of Rising Commodity Prices in the Sahel

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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

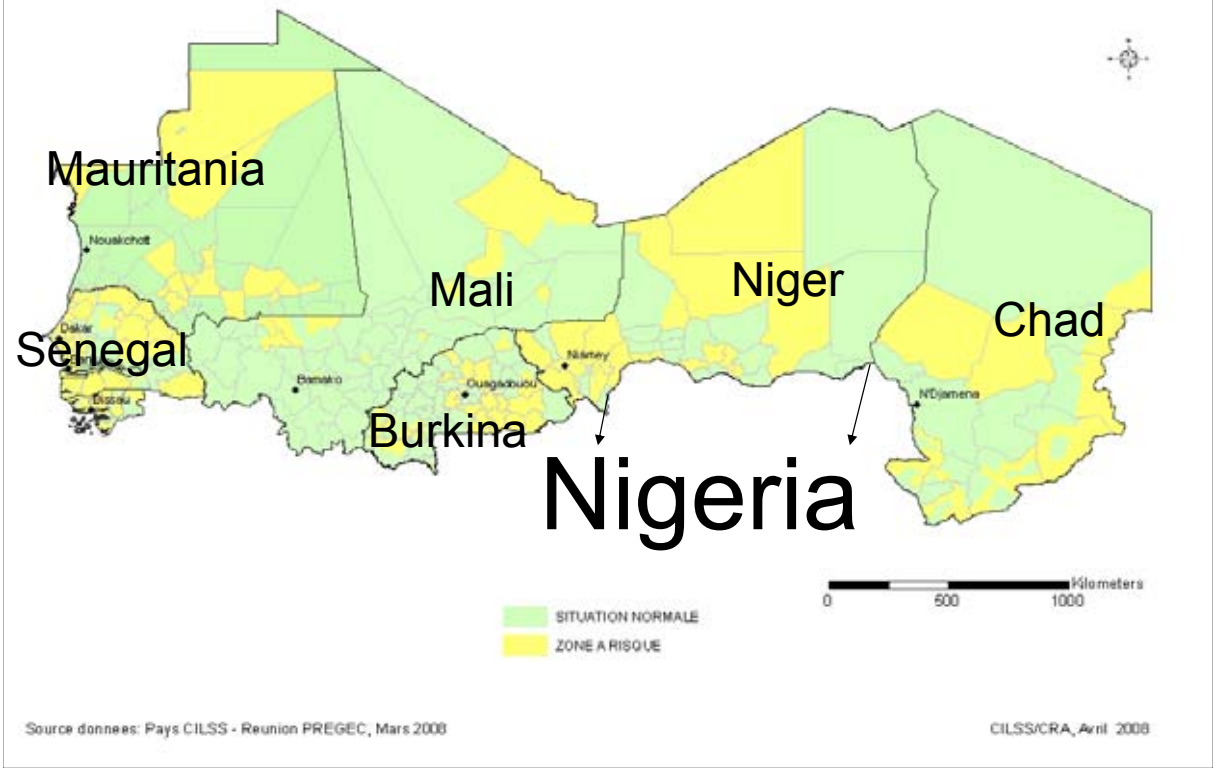
Key Drivers: World

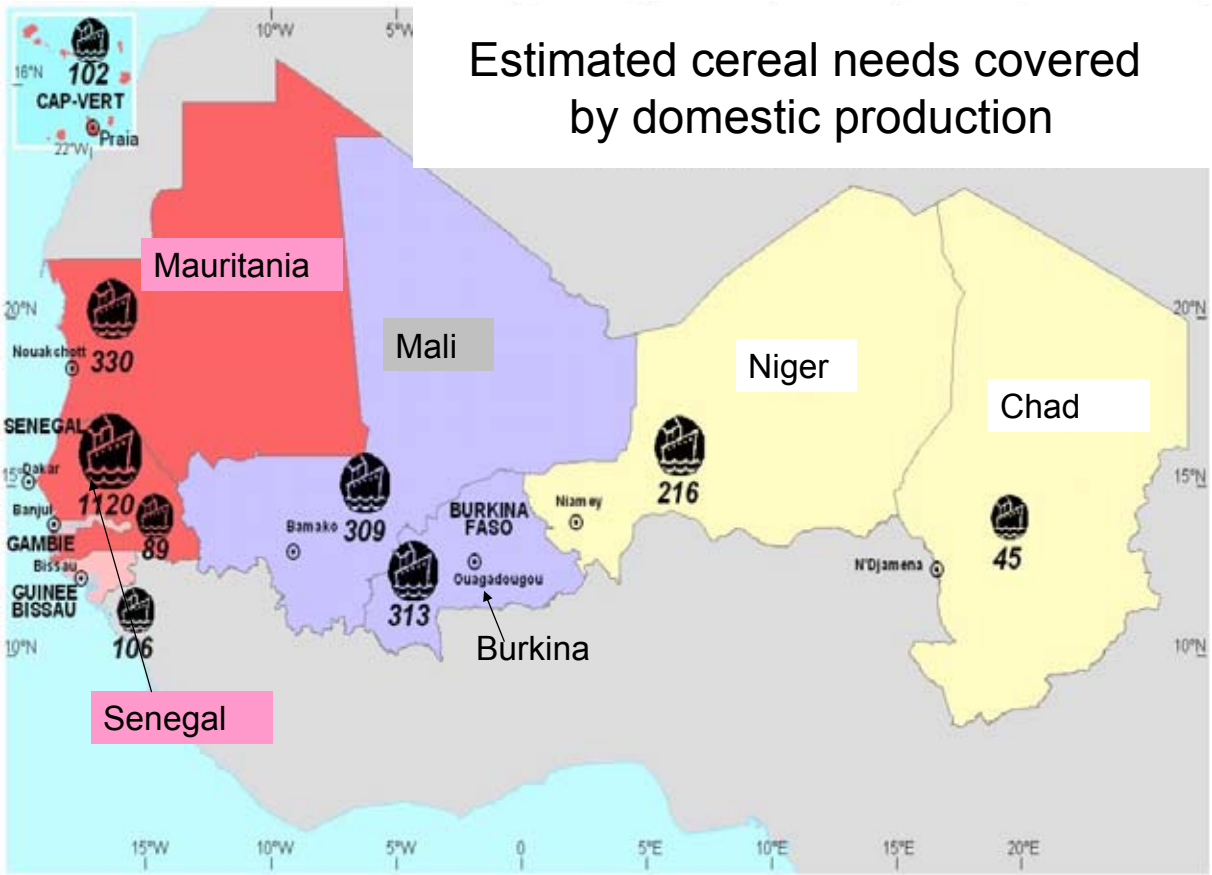
- World market prices are:
  - rising unusually fast,
  - more volatile,
  - greater duration of rise
  - greater breadth of products
- Why?
  - Weather
  - Declining world cereal stocks
  - Changing consumer demand (meat, poultry, dairy)
  - Rising energy prices → increased biofuel demand & increased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

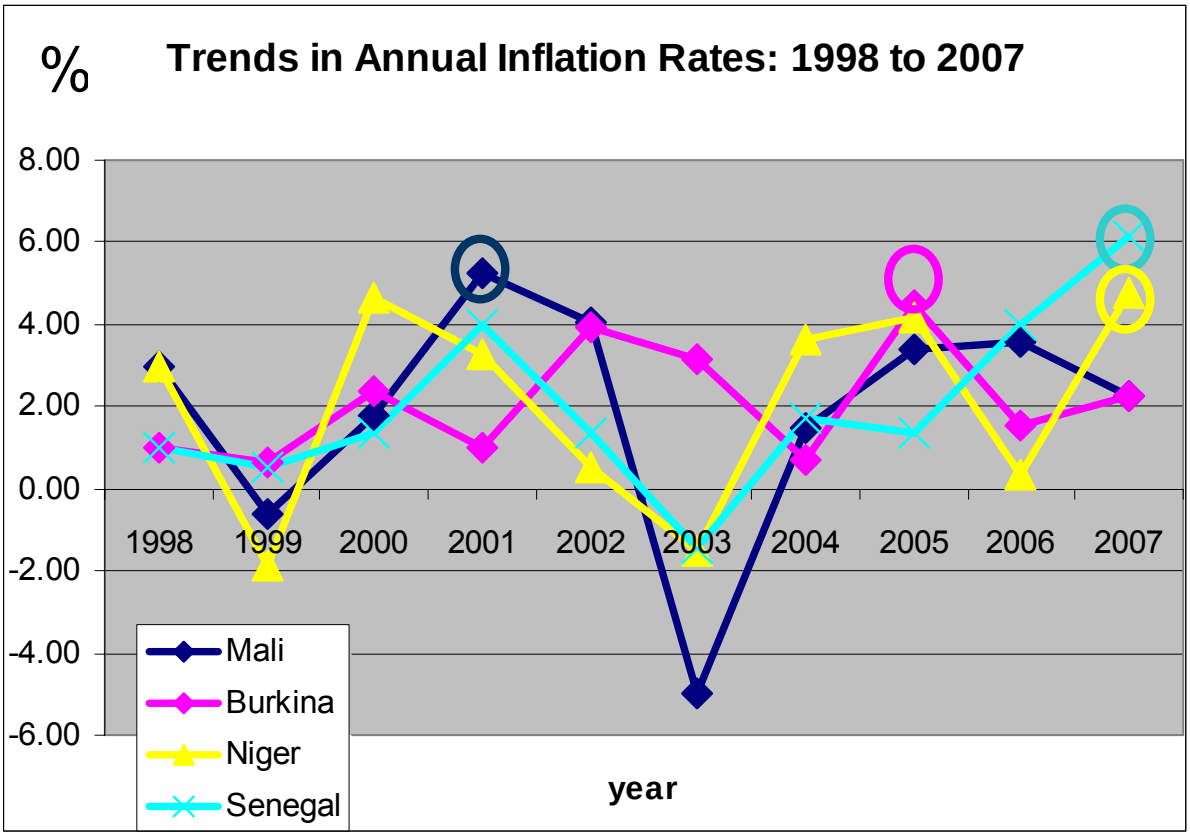
Key Drivers: Sahel

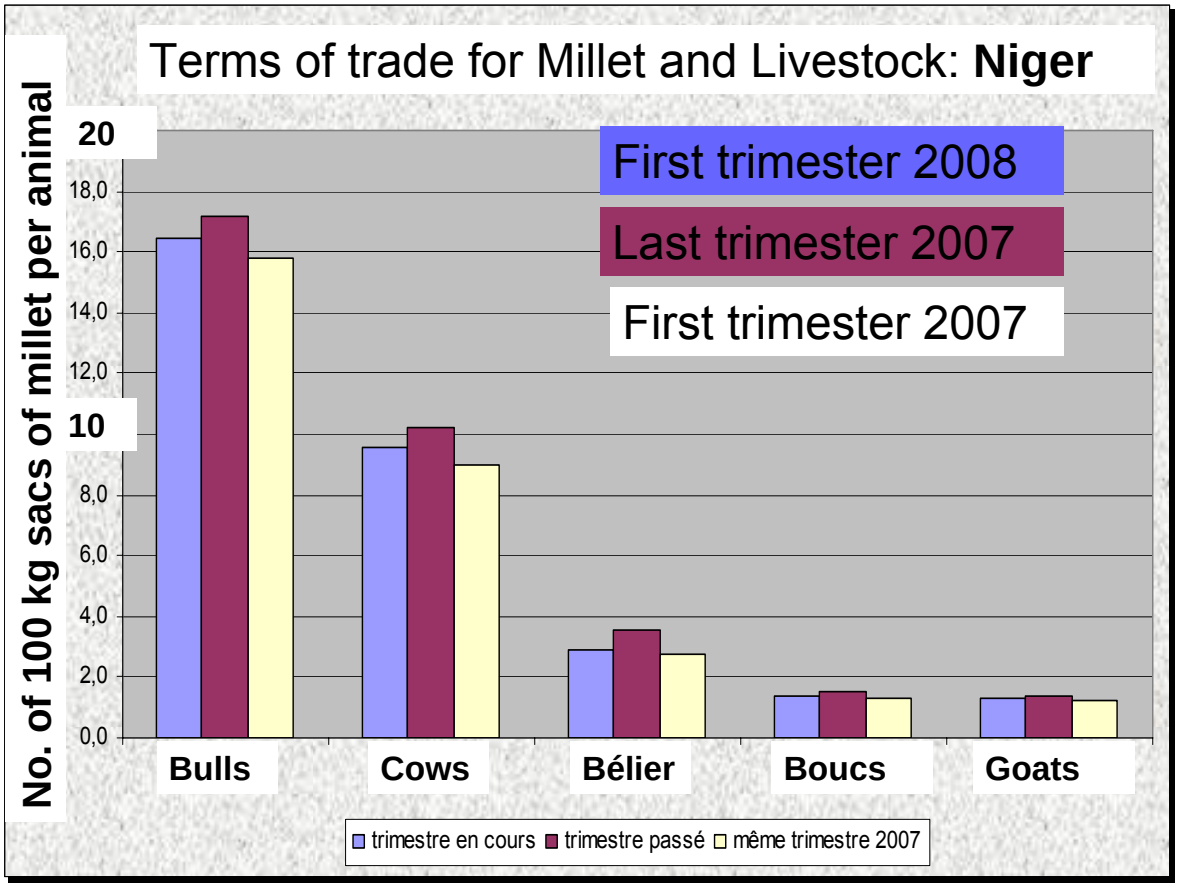
- Import-dependent countries
  - Production shortfalls
  - Export bans by neighbors
  - Rising import bills slowing down flow of cereal imports
  - Urbanization and changing consumption patterns
- Cereal-surplus countries
  - Localized production shortfalls
  - Strong demand and good prices for livestock
  - 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




Estimated cereal needs covered by domestic production
Mauritania
Mali
Niger
Chad
Senegal
Burkina
102
CAP-VERT
Praia
330
Nouakchott
SENEGAL
Dakar
1120
Banjul
GAMBIE
89
Bissau
GUINEE BISSAU
106
Bamako
309
BURKINA FASO
Ouagadougou
313
Niamey
216
N'Djamena
45
10°W
5°W
16°N
22°W
20°N
15°N
10°N
15°W
0
5°E
10°E
15°E
20°E


%
Trends in Annual Inflation Rates: 1998 to 2007
8.00
6.00
4.00
2.00
0.00
-2.00
-4.00
-6.00
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
Mali
Burkina
Niger
Senegal
year



Available Policy Tools: Price Reducing

Tools (relevant criteria)	Evaluation Criteria
• Tariffs/VAT (2-5) • Subsidies/rations – Generalized (3, 4) – Targeted (1-3) • Release stocks (2, 4) • Export restrictions (4) • Prod. price controls (0)	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 2. Preserves incentives 3. Costs contained 4. Easy to implement 5. Limited mgt/governance concerns

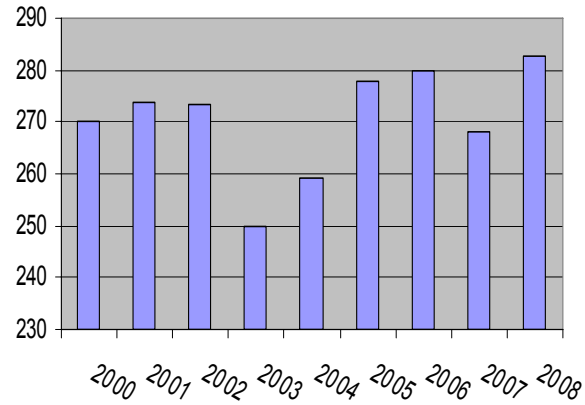
Responding with Improved Monitoring & Analysis

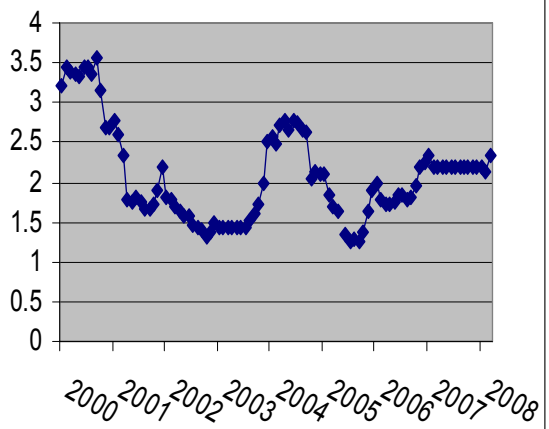
- Crop estimates
- Market prices and flows
- Stock data
- Changes in relative prices
- Exchange rates
- Government budgets, ForEx, credit
- Identifying vulnerable groups
  - Urban
  - Rural
- Short and medium-run market outlook forecasts

Rice/Civil Servant Salary Index: Bamako

Rice/Millet Price Index: Bamako

2000-2008





Producer Prices of Cotton: Burkina Faso and Mali				
	Burkina		Mali	
Season	Nominal	Real*	Nominal	Real*
	(CFA F/kg of seed cotton)			
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.

62%

69%

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

Possible Scenarios

World Market Cereal Prices: May-December

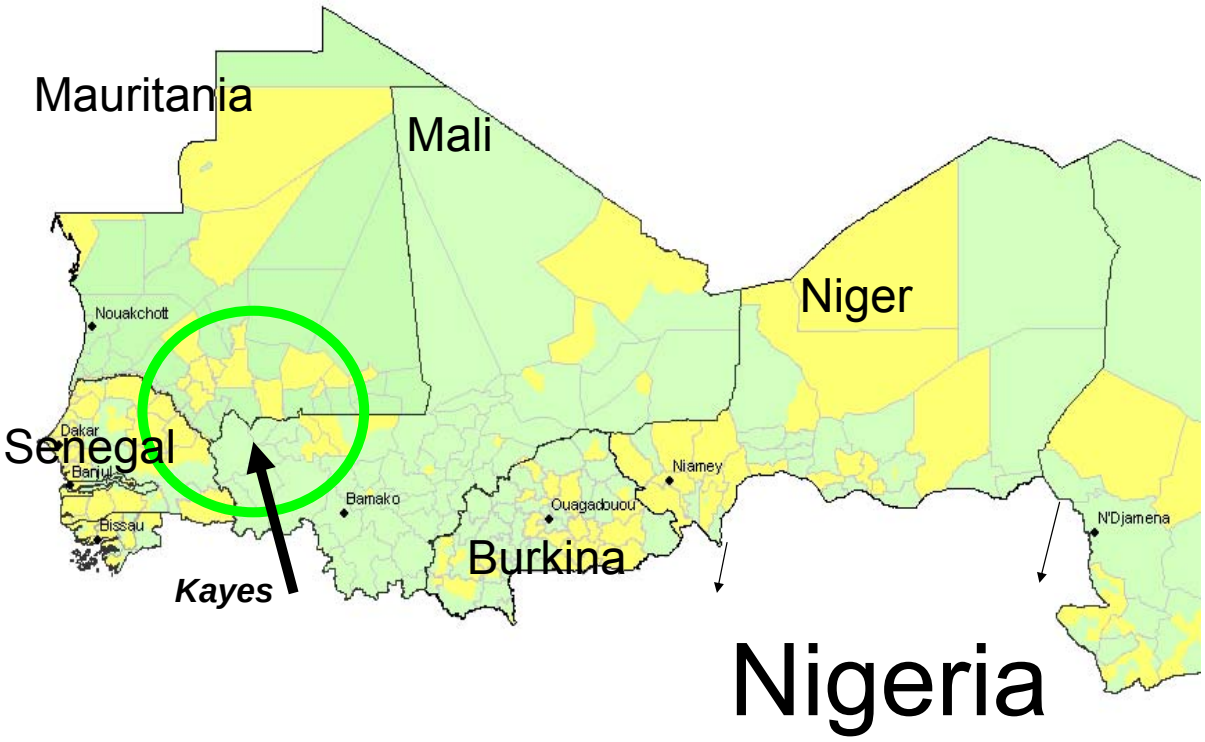
Rainfall & Harvest Predictions	Declining	High or Increasing
Good	Net price impact Opportunities Dangers	
Bad		

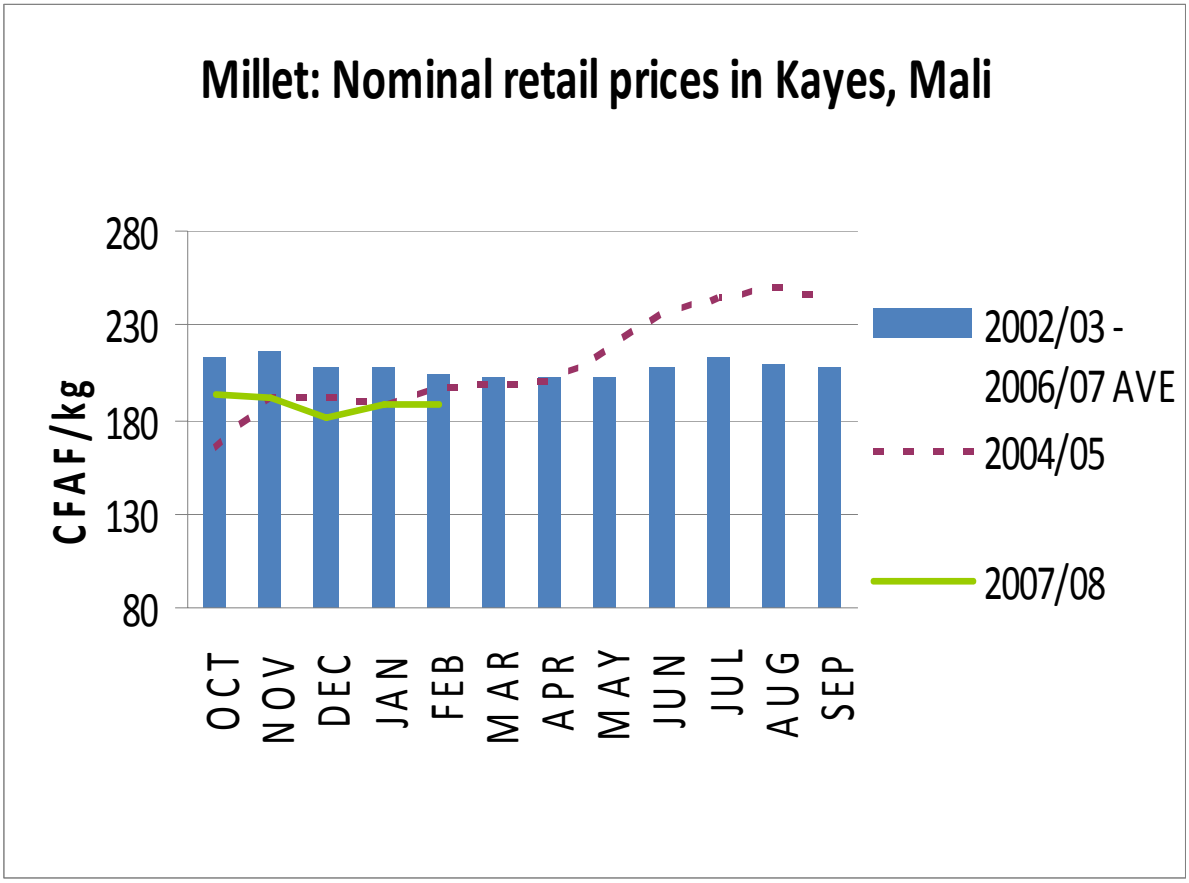
Best-Case Scenario

World Market Cereal Prices: May-December

Rainfall & Harvest Predictions	Declining
Good	**Production stimulus**: top dressings, inputs for work or "work delayed" **Rebuild food security stocks**: National: favor regional over imports when possible Rural: community storage programs **Reinstate suspended tariffs** and taxes: Build revenue Timing is an issue, often linked to competition in market **Targeted safety nets**: 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 **Remove export bans**: Mali first to aid Mauritania/Senegal

Best-Case Scenario





“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

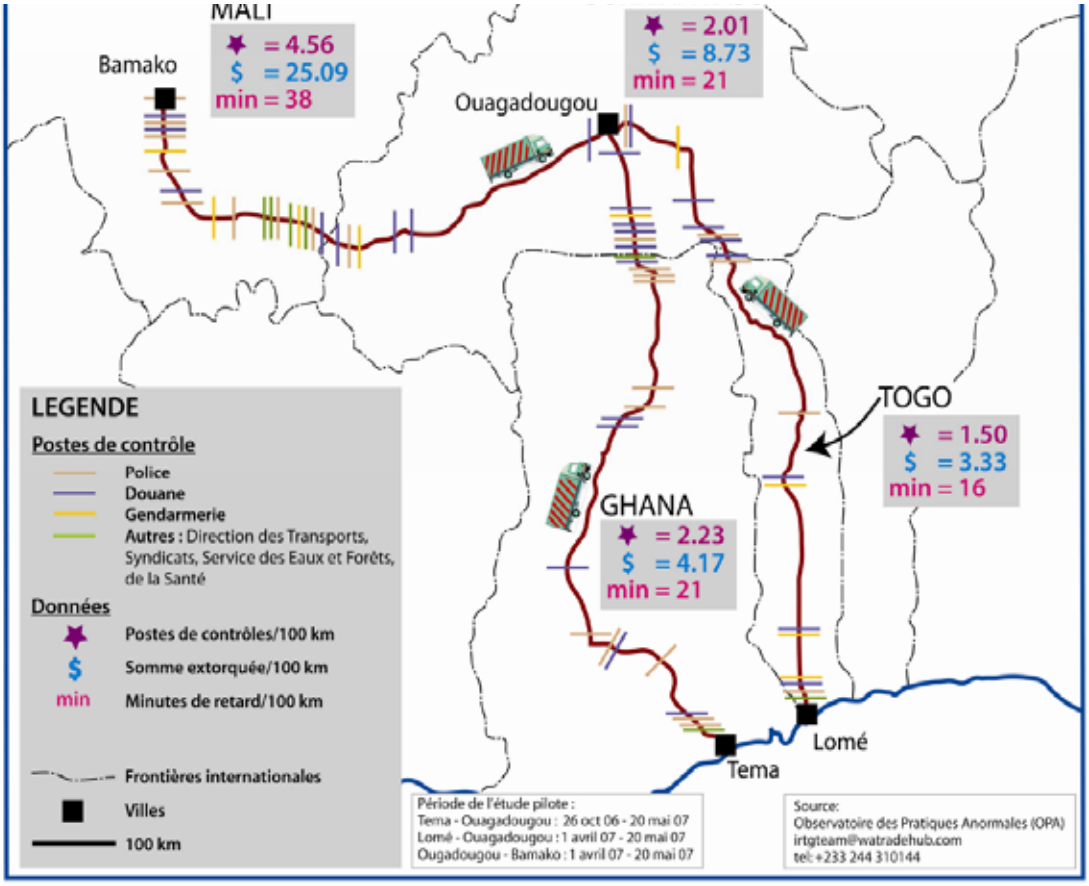
Production: Off season focus for cereals plus high value crops; livestock may need help with feed; input suppliers may need help with carry over stocks; poultry not clear.

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

Rainfall & Harvest Predictions	High or Rising
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