POLICIES FOR MANAGING VOLATILITY OF STAPLE FOOD PRICES IN WEST AFRICA

John STAATZ, Niama Nango DEMBÉLÉ, & Boubacar DIALLO
Michigan State University

4th International Disaster and Risk Conference IDRC Davos 2012
26 -30 August 2012 – Davos, Switzerland
Outline of presentation

- Key messages
- Nature of volatility of staple food prices in West Africa
- Impacts – Who is affected?
- Causes:
  - Imported volatility
  - Domestic volatility
- Efforts to address price volatility:
  - Reduce it
  - Manage its impact
- Ways forward

West Africa: the ECOWAS zone
Key messages

- Price volatility and how it is dealt with has important effects on:
  - Welfare of the poor
  - Political stability
  - Pace and type of economic growth

- Price volatility in West Africa has 2 components:
  - Imported and internal
  - Both have been increasing in recent years

- Challenge is twofold: reduce volatility and manage its consequences
Key messages

- Policies used in recent past to deal with volatility in West Africa (trade restrictions, increasing government stocks, consumer subsidies) have had mixed effects and are likely to be financially unsustainable.

- Given ecological complementarities in West Africa, regional trade appears as a less costly price volatility mitigation and management tool, but this necessitates:
  - Regional leadership of ECOWAS on trade
  - Regional funding of safety nets in countries with low per capita incomes to avoid political pressures for export bans ➔ Agricultural trade & growth policies cannot be designed independently of safety net strategy.

- Weather-based crop insurance, better water control and development of resilient crop/livestock varieties to reduce the risk of investment at the farm level will also play a key role.

- Better information on production, trade, and inventory levels are critically important.
Nature of Price Volatility

- Volatility involves large and unanticipated price changes—both higher and lower.
- Results from sudden shifts in supply & demand.
- Much of recent attention has been focused on higher prices and their impacts on the poor.
- Historically market gluts as well as shortages have plagued West Africa.

Figure 2. Sahel Price Index Projections July - December 2012 (100 base 2005/06)
Who is affected?

- Farmers (both net sellers and net buyers)
- Marketers
- Processors and those who use grain as an input (e.g., poultry producers)
- Input providers
- Lenders
- Consumers, esp. urban poor
- Political leaders, policy makers, & government budgets
- Differential impact across countries

Source: Konandreas, 2012/FAO
Two Sources of Price Volatility

**Imported**
FAO’s World Food Price Indices

**Internal**
Farm-level and retail maize prices in Mali

Source: FAO

Source: Diarra and Traore (2010)
Causes of Price Global/Imported Price Volatility

- **Structural changes combined with short-run shocks**
  - **Structural factors:**
    - Reduction of carryover stocks due to changes in OECD support policies
    - Thinness of international market for rice
    - Greater integration of energy, agricultural and financial markets
    - Growing inelasticity of demand as incomes rise in emerging economies
    - Climate change
  - **Shorter-run shocks:**
    - Rapid phase-in of biofuel mandates
    - Weather shocks
    - Government hoarding (export bans)
    - Financial speculation in commodity derivatives markets

- **Key point:** Global price volatility only affects West Africa if national and global markets are well integrated (price transmission effect)
Causes of Internal Price Volatility

- Thinness of domestic markets: for coarse grains, only 20-30% of production is sold
- Weather and pest shocks
- Weak transport infrastructure
- **High transaction costs of regional trade**
- Weak information on level of production and stocks in the region
- Unpredictability of government policy actions, particularly regarding regional/international trade
- Speculation given high uncertainty
Efforts to Address Price Volatility in West Africa

- Efforts to address price volatility in West Africa since 2007/08 have focused on:
  - Reducing volatility
  - Managing its impacts
- Policy makers have tried to address needs of both farmers and consumers, but in practice, concerns about consumers have tended to dominate.
- The experience has shown that policies aimed at stimulating agricultural growth cannot be designed independently of social safety-net programs.
Previous efforts to deal with volatility

- **Reducing volatility:**
  - Trade policy
  - Expansion of national and local-level government stocks, but with policy actions that may crowded out private storage.
  - Efforts to boost national production and reduce reliance on trade since 2008 (agricultural globalization in reverse).
  - Efforts to make production more stable through irrigation and improved soil/water management

- **Managing volatility:**
  - Targeted subsidies for farmers and consumers and social safety-net programs.
Ways Forward: Dealing with imported volatility

- Reducing imported volatility involves reducing the connection between domestic and international prices.
  - This is done through:
    - Trade policy – e.g., some form of variable levy
    - Reducing the reliance on imports

- Greater ECOWAS engagement in international fora to get agreements that would reduce volatility and capacity to manage them – e.g.,
  - Rationalizing biofuels mandates
  - Strengthening WTO disciplines on export restrictions

- Managing the impact of imported price volatility
  - Crop insurance for commercial farmers and processors
  - Safety nets, including public works
  - Strengthening international financing facilities for dealing with import surges
    - CAADP Regional Fund for Agriculture – Borrowing window for dealing with volatility
    - Greater use of IMF cereals import facility
Ways Forward: Dealing with internally generated volatility

- Reducing internal volatility:
  - Better information, particularly concerning stocks
  - Transparent rules regarding conditions under which intra-regional exports will be restricted
  - Forward contracting with enforcement incentives
  - Stocks:
    - Large buffer stocks historically have not worked
    - Danger of crowding out private storage
    - Explore possible subsidization of storage construction at community level, linked to mandatory reporting of inventories
    - Seasonal credit linked with warehouse receipts (warrantage) to deal with seasonal volatility
    - Potential for ECOWAS financial reserve to deal with food security issues
  - Make production less rainfall dependent through irrigation and soil/water conservation techniques
  - Improved cultivars that resist to weather shocks

- Managing the impact of internal price volatility
  - Crop insurance for commercial farmers and processors
  - Safety nets, including public works
Thank you
Checkpoints and associated delays and costs along main trucking routes

Source: 12ème Rapport de l'OPA/UEMOA, 10 août 2010, West Africa Trade Hub