

POLICIES FOR MANAGING VOLATILITY OF STAPLE FOOD PRICES IN WEST AFRICA

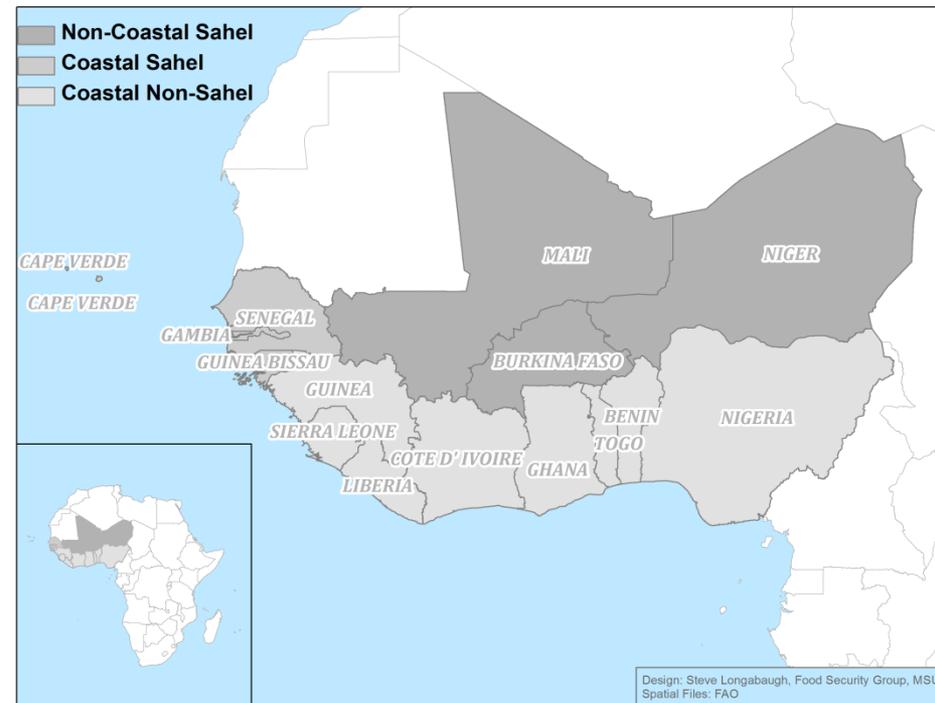
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Outline of presentation

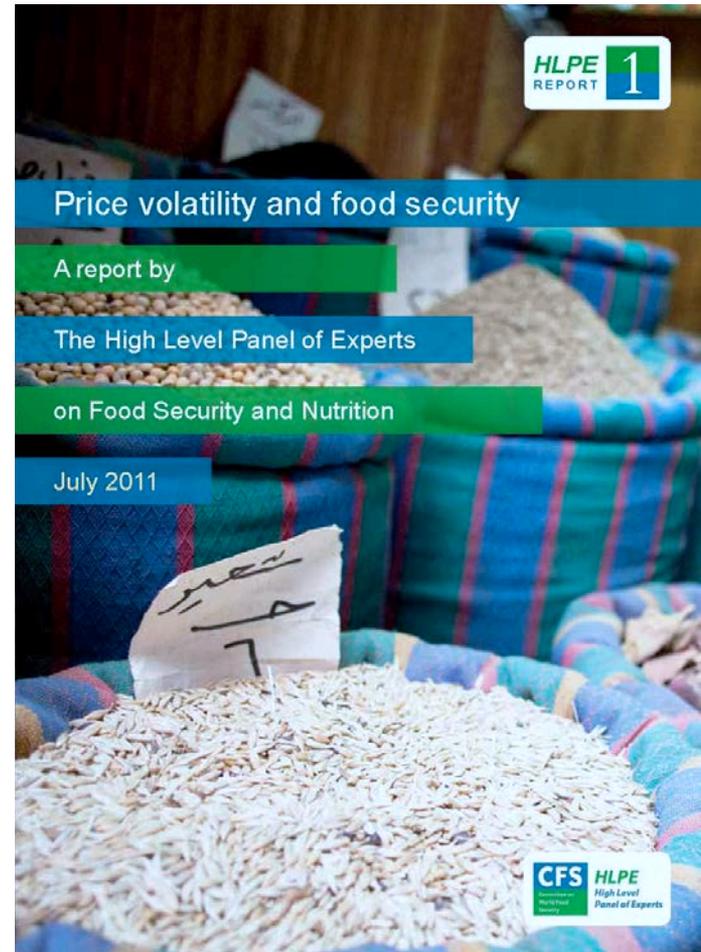
- Key messages
- Nature of volatility of staple food prices in West Africa
- Impacts – Who is affected?
- Causes:
 - ▣ Imported volatility
 - ▣ Domestic volatility
- Efforts to address price volatility:
 - ▣ Reduce it
 - ▣ Manage its impact
- Ways forward

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





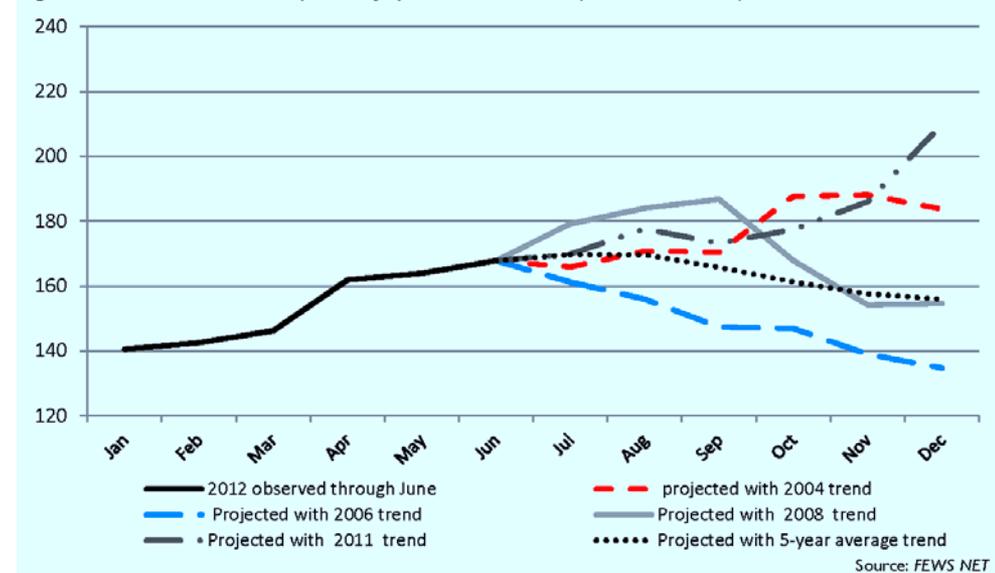
Key messages

- 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

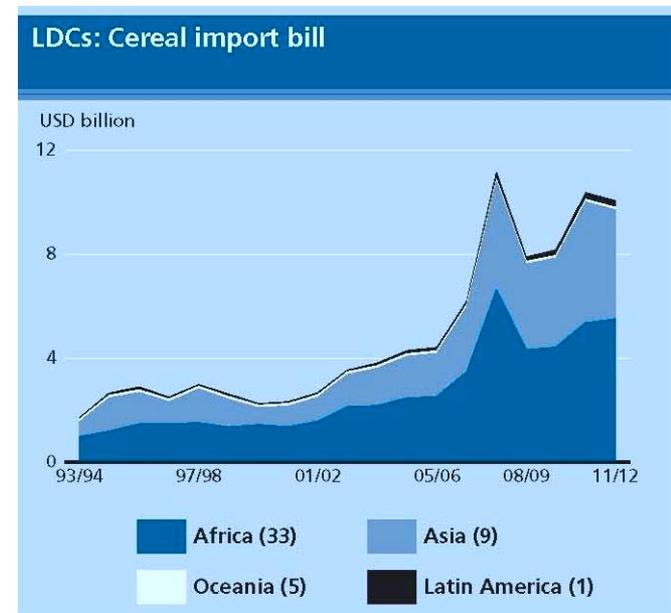
- Volatility involves large and **unanticipated** price changes—both **higher** and **lower**.
- Results from sudden shifts in supply & demand
- Much of recent attention has been focused on higher prices and their impacts on the poor.
- Historically market gluts as well as shortages have plagued West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

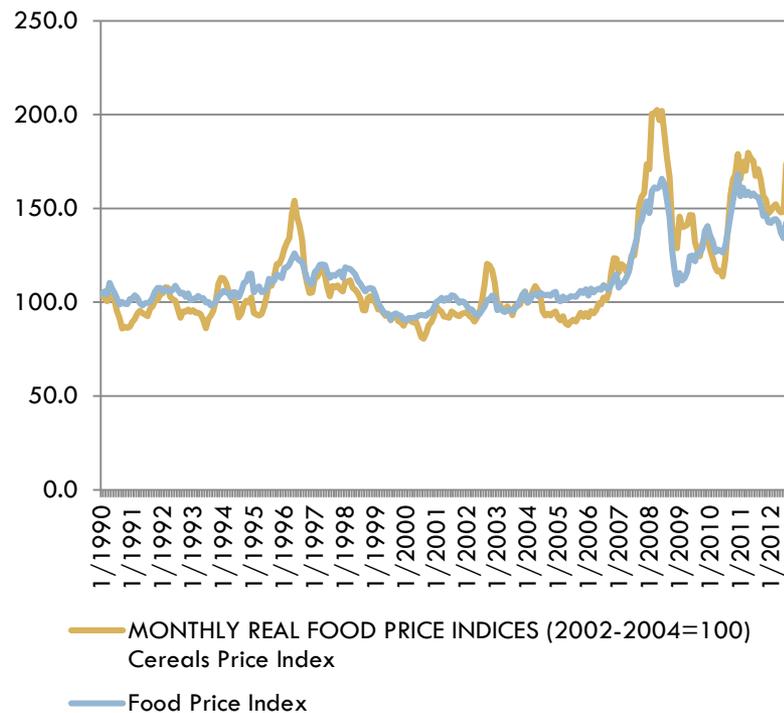


Source: Konandreas, 2012/FAO

Two Sources of Price Volatility

Imported

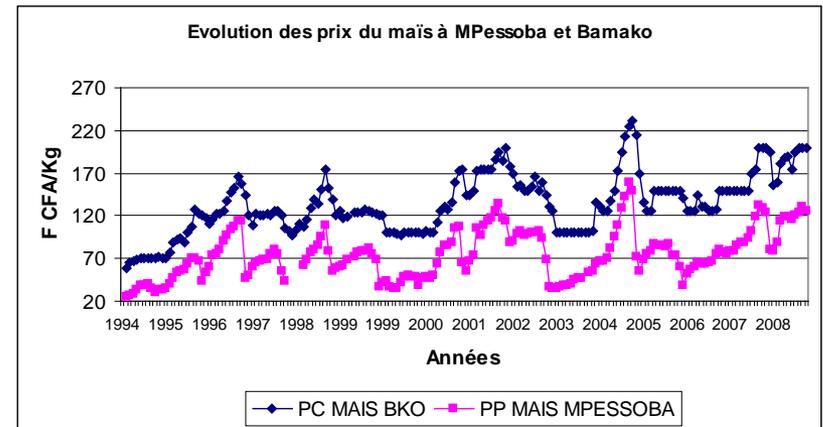
FAO's World Food Price Indices



Source: FAO

Internal

Farm-level and retail maize prices in Mali



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



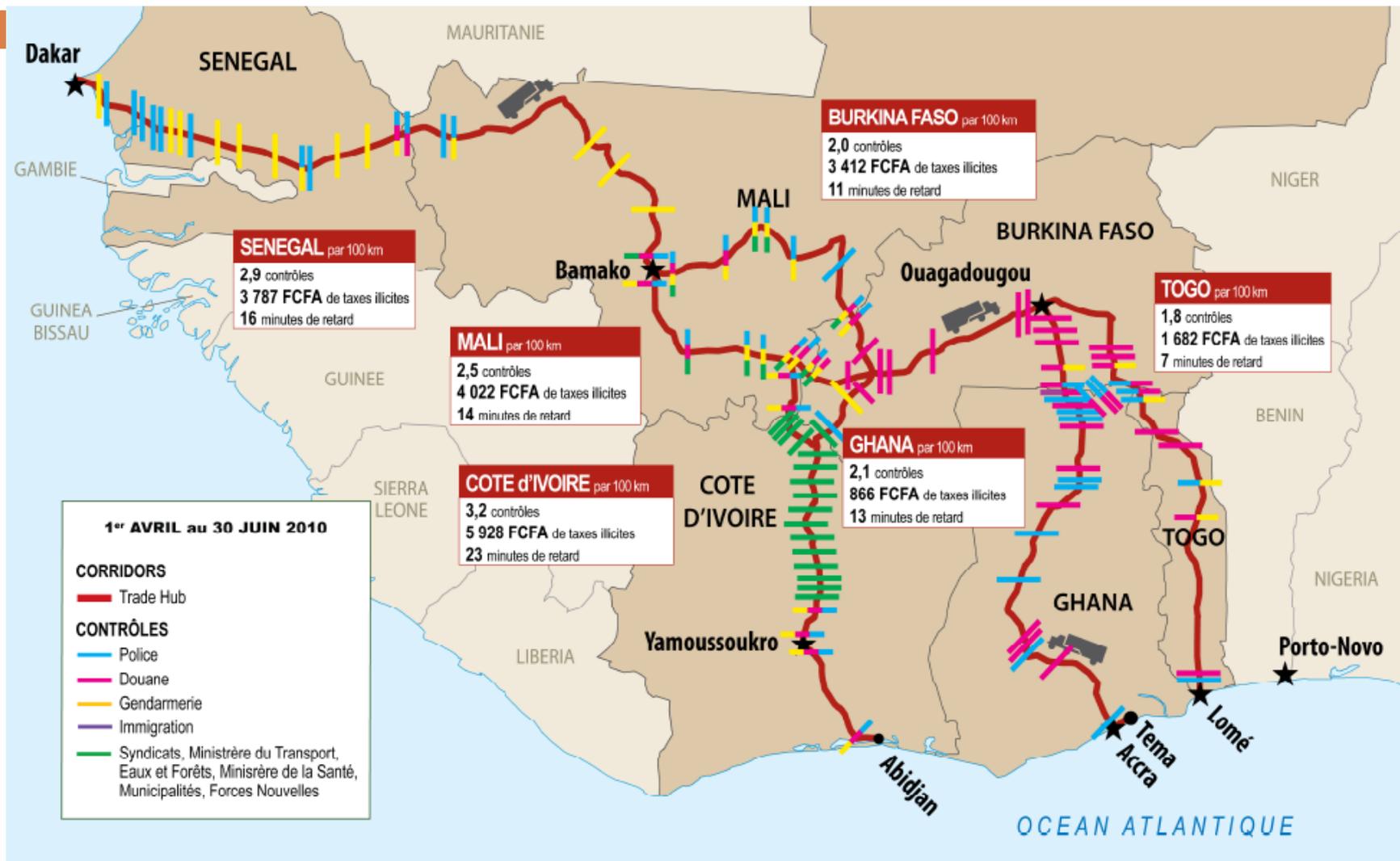
Ways Forward: Dealing with internally generated volatility

- 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: 12^{ème} Rapport de l'OPA/UEMOA, 10 août 2010, West Africa Trade Hub