RICE MARKET DYNAMICS IN WEST AFRICA: IMPLICATIONS FOR LINKING SMALLHOLDERS TO GROWING MARKETS

Boubacar Diallo, John Staatz, Ramziath Adjao, Nathalie Me-Nsope, Ryan Vroegindewey, Veronique Theriault (all from MSU)

Thanks to the Syngenta Foundation for Sustainable Agriculture for its support in the framework of the SRAI program

Regional FSAD Workshop on the West Africa Rice Program
10-12 December 2014- Saint-Louis - Senegal

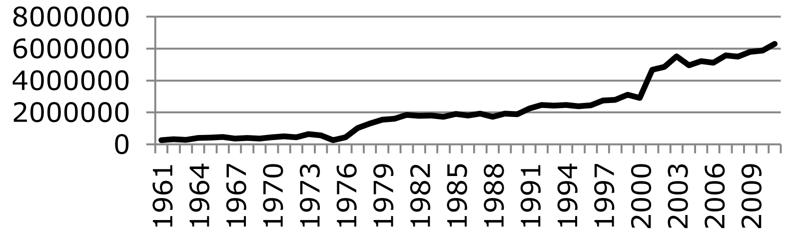
Presentation outline

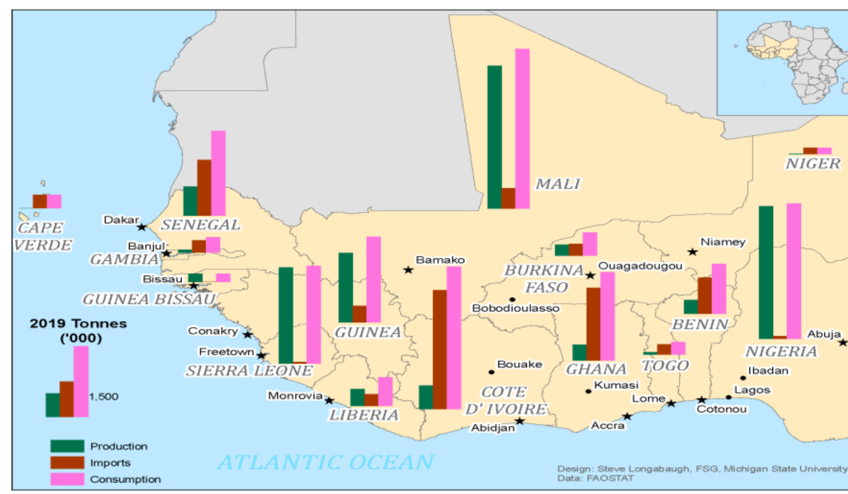
1. Evolution of demand and trends in rice consumption
2. Competitiveness of rice in West Africa since the 2008 crisis
3. Dynamics of the regional rice trade in West Africa
4. Recent trends in the Asian market for rice
5. Implications of trends in the Asian market for West Africa
6. What policies are needed for the development of rice in West Africa?
7. Implications for different models for linking West African smallholders to growing rice market ?

Evolution of demand & trends in rice consumption

- Rice consumption rising across most countries of West Africa due to:
  - Rapid population growth & urbanization
  - Time-poor consumers seeking convenience
  - Income-led increase in total calorie consumption & desire for diet diversification
  - Availability of imported rice, even in rural areas
- Production has lagged consumption → soaring imports (16X over 50 years)
- Yet pattern varies widely by country, & is part of a more complex change in starchy staple consumption

Rice imports into Western Africa (mt), 1961-2011



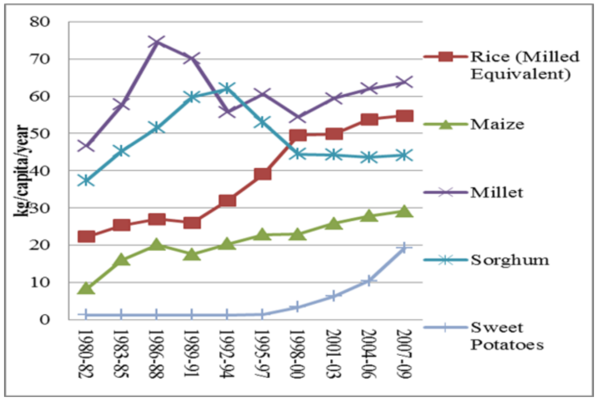


Evolution of demand & trends in rice consumption

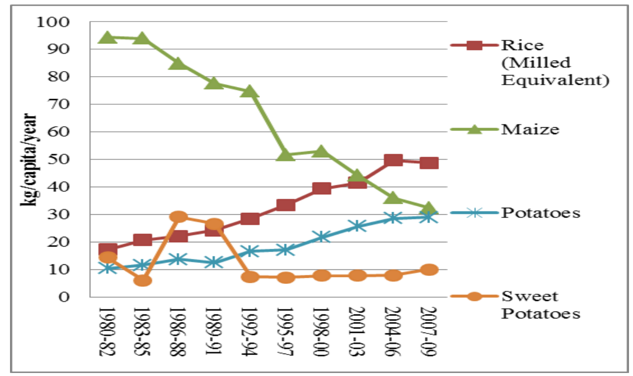
	1980-82	1989-91	2001-03	2007-09	% change 1980-85 to 2004-09
Non-coastal Sahel					
Mali	21	17	29	29	49
Niger	5	6	12	7	62
Burkina Faso	6	6	10	9	18
Coastal Sahel					
Cape Verde	12	18	34	40	195
Gambia	58	57	32	38	-41
Guinea Bissau	53	67	61	58	-3
Senegal	45	42	51	48	8
Coastal non-Sahelian					
Benin	5	10	10	18	171
Cote d'Ivoire	29	30	28	33	6
Guinea	49	59	60	61	23
Ghana	5	8	11	14	151
Liberia	69	65	43	56	-28
Nigeria	16	15	14	12	-14
Sierra Leone	79	79	67	68	-14
Togo	6	7	11	12	119

Trend in rice share (%) in starchy staples calories; source: Nathalie Me-Nsope

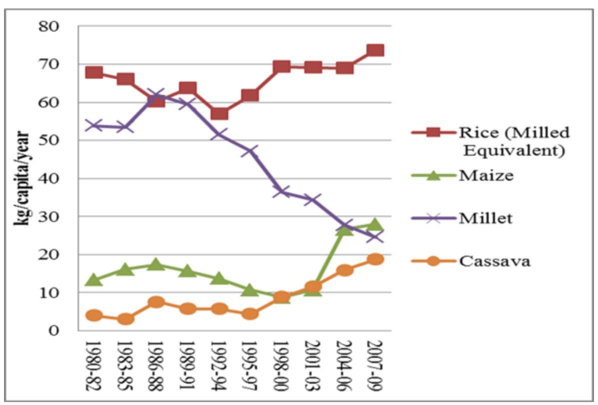
Evolution of demand & trends in rice consumption (cont'd.)



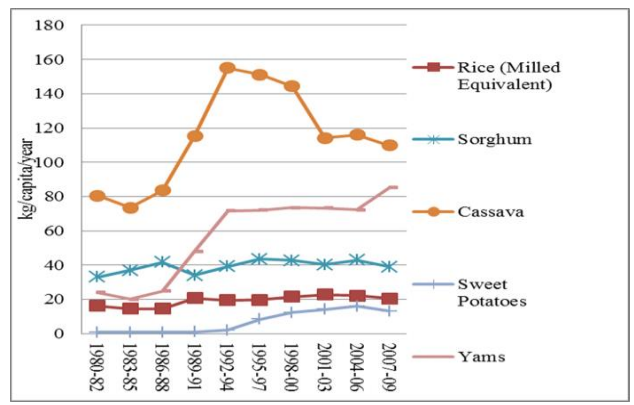
Mali



Cap Vert



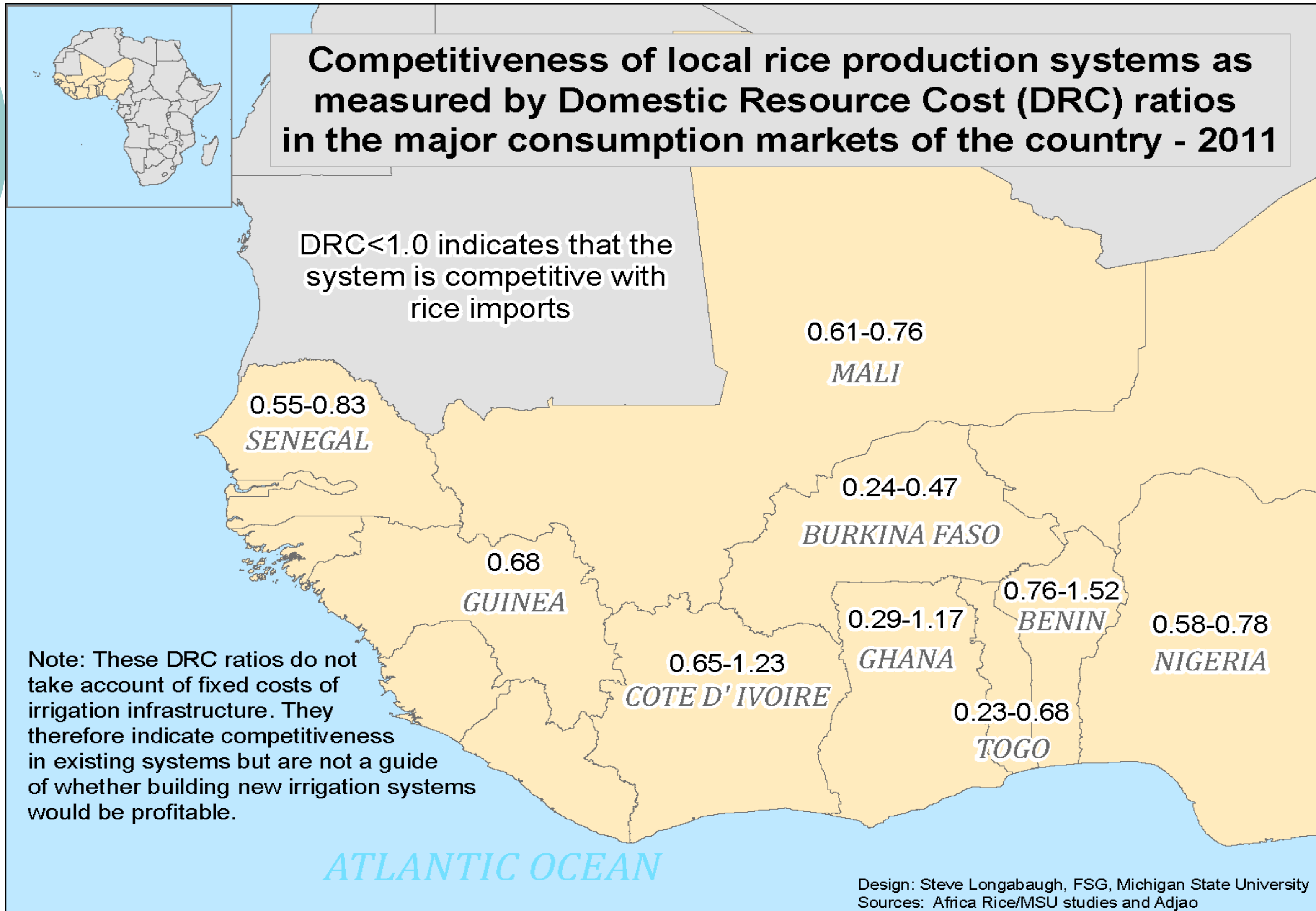
Sénégal



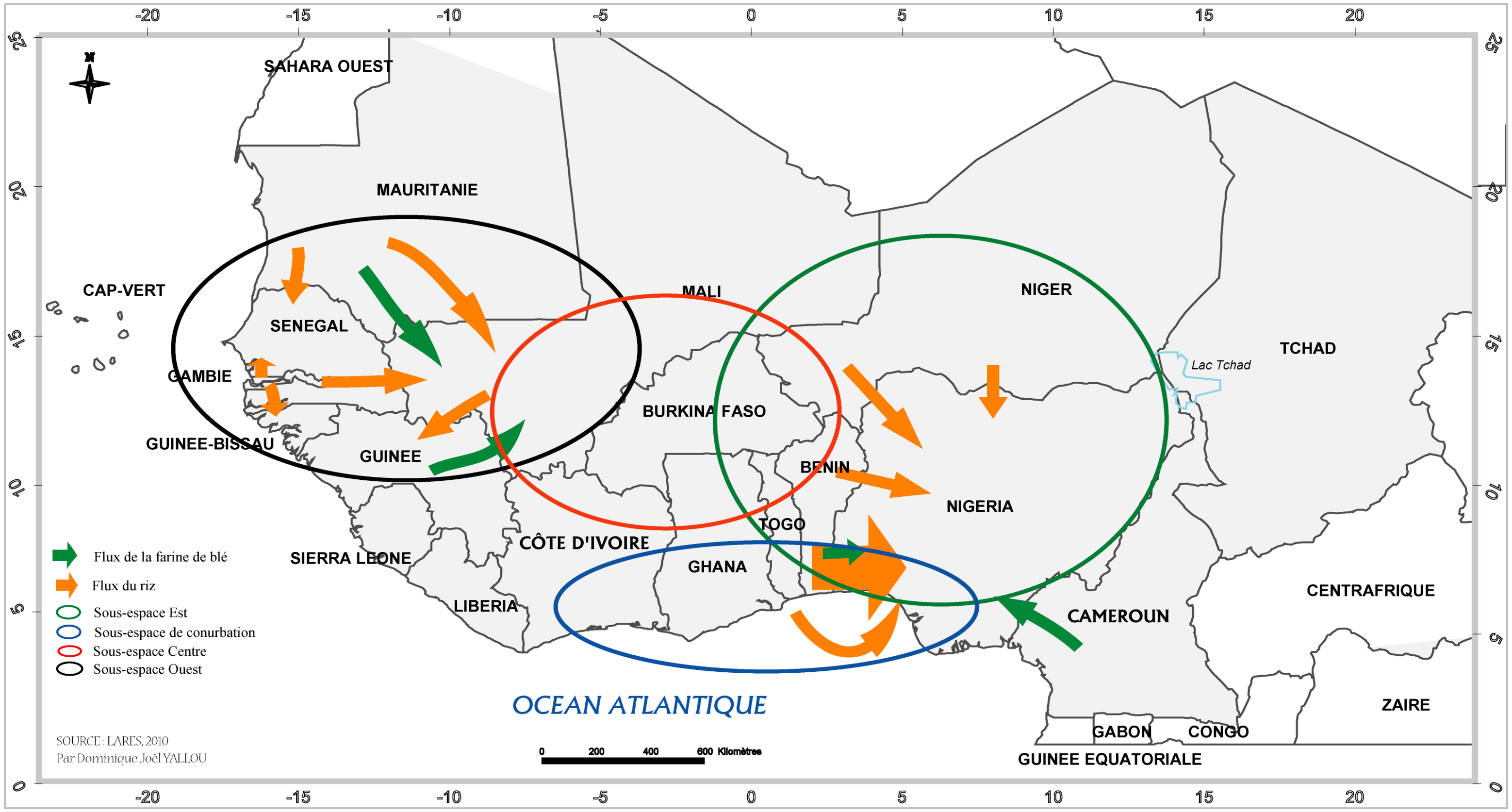
Nigéria

Trends in Supply by Major Starchy Staple Type (kg/capita)

Competitiveness of West African Rice



Dynamics of rice trade in West Africa



Trade flows of re-exported rice and wheat flour in West Africa ; Source: SRAI review of cereals trade in West Africa over the past 25 years (Soulé and Gansari, 2010)

Dynamics of rice trade in West Africa (cont'd.)

- Some recent disruptions:
  - Civil unrest in Mali and Nigeria
  - Ebola, especially affecting regional trade of Liberia, Sierra Leone and Guinea, which are major rice consumers and producers

- Historic role of re-exportations in undermining individual countries attempts to protect their agriculture (e.g., Gambia-Senegal trade in rice).
  - How will this play out in the context of the ECOWAS CET?
  - In principle, the CET applies to everyone uniformly, but with safeguards that can be triggered at national level (with regional approval). Implementation will be a challenge.

Main trends in the Asian rice market

- Structural change
  - Increased income
  - Urbanization
  - Declining birth rate
  - Industrialization and growth of manufacturing, leading to higher wage rates and less labor available for rice cultivation
- … leading to diversification of diets
  - Decreased per capita consumption of rice
  - Increased per capita consumption of fruits, vegetables and meat
- … and diversification of production into higher value crops
  - Increasing competition between rice & other crops for water and land
  - Falling cereal prices relative to inputs costs
  - Diminishing returns to modern varieties
  - Declining TFP of rice

Main trends in the Asian rice market (cont'd.)

	Asia		West Africa	
	Current	Trend	Current	Trend
Consumption	+ + +	↑	+	↑ ↑ ↑
Production	+ + +	↑	+	↑ ↑
Area	+ + +	↓	+ 2	↑ ↑
Yield	+ + +	↑ ↑	+	↑
Price of rice	+ + +	↓	+ + +	↓
Input and energy costs	+ +	↑	+	↑ ↑
Trade	+ +	↑	− −	↓

Implications of trends in the Asian market for West Africa

- Increasing farm-level productivity
  - Scope for productivity increase vary across ecologies (irrigated, lowland, and upland) – TFP vs. yield
  - Rehabilitating lowlands would offer a favorable environment for expansion of rice production
- Decreasing per-unit costs throughout the value chain
  - Off-farm transaction costs and transports costs in WA remain among the highest in the world
  - Need to improve post-harvest operations by improving contractual linkages between smallholders and processors as well as wholesaling functions
- Improving product quality and market segmentation
  - Higher quality locally produced rice fetches a premium (up to 20%) over imported rice in some countries
  - Need to increase consistent supply of paddy to medium & large scale millers by improving contractual linkages between farmers and millers

What policies are needed for the development of rice in West Africa?

- Since the 2008 crisis, most countries have continued to:
  - Reduce or remove import taxes on rice
  - Subsidize, at high cost, local production
  - Continue export restrictions
  - Continue social protection programs
- Five years after the 2008 crisis:
  - The international market has become less volatile
  - Market distortions persist, with little relationship to the international market
  - Policies of exporting countries (e.g., India) continue to affect the world market
  - Rice imports are strongly concentrated in certain countries and have increased even more
  - Public-sector interventions remain, as before, unpredictable

What policies are needed for the development of rice in West Africa? (cont’d.)

- Increasing productivity & value addition are key for enhancing the rice competitiveness
- Ensure a stable and predictable policy environment
- Ensure the efficiency of subsidies invested to support production

Implications for the models needed to link West African smallholders to growing rice markets

- Models currently being used/tested:
  - Farmer-led models
  - Processor-led models
  - Wholesaler-led models
  - Service-provider-led models
  - Processor/trader-led PPPs (e.g. Yaanovel; Valnovel)
- Analysis needs to focus on key conditions for success of each, possible strengths & weaknesses as the market and the policy environment evolve.

Implications for the models needed to link the West African smallholders to growing rice markets (cont'd).

Key challenges in linking smallholders to growing markets:

- Ensuring productivity gains both at the farm level and the off-farm level.
- Assuring that large-scale buyers (agroprocessors, large-scale retailers, exporters) can obtain reliable supplies, in adequate volumes and at consistent quality ("quality@quantity").
- Ensuring adequate returns to all actors to induce continued investment in productivity enhancing technologies and practices.
- Failure to deliver reliable supplies leads buyers to:
  - Turn to imports for those serving the domestic market.
  - Buy from other locations for those serving the export market, and/or
  - Produce it themselves in large-scale farms.
  - None of these options are favorable to smallholders.

Implications for the models needed to link the West African smallholders to growing rice markets (cont'd.)

Challenges in contract design and enforcements for smallholders:

- Creating incentives for honoring the contract & sharing risks by both parties

  Examples from Mali:

  - Farmers' cost miscalculations and price fluctuations
  - Underweight deliveries
  - Poor quality
- Dealing with highly seasonal price fluctuations

These challenges imply a need to pay special attention to:

  - Support/advisory services
  - Financing arrangements
  - Investing in aggregation/quality control services—both through farmer organizations and with private wholesalers

During the rest of the workshop, let's discuss how the various models perform with respect to these criteria in different settings.

Thank you very much!

Let’s discuss!