

Potential Food Security Impacts of Rising Commodity Prices in the Sahel

by
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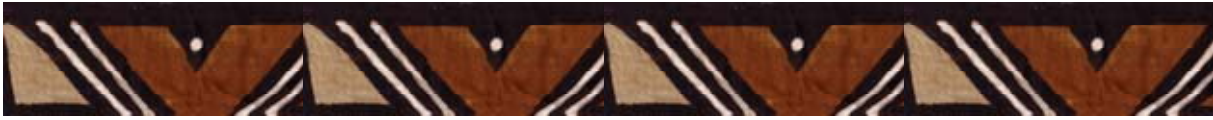


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Road Map

- 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

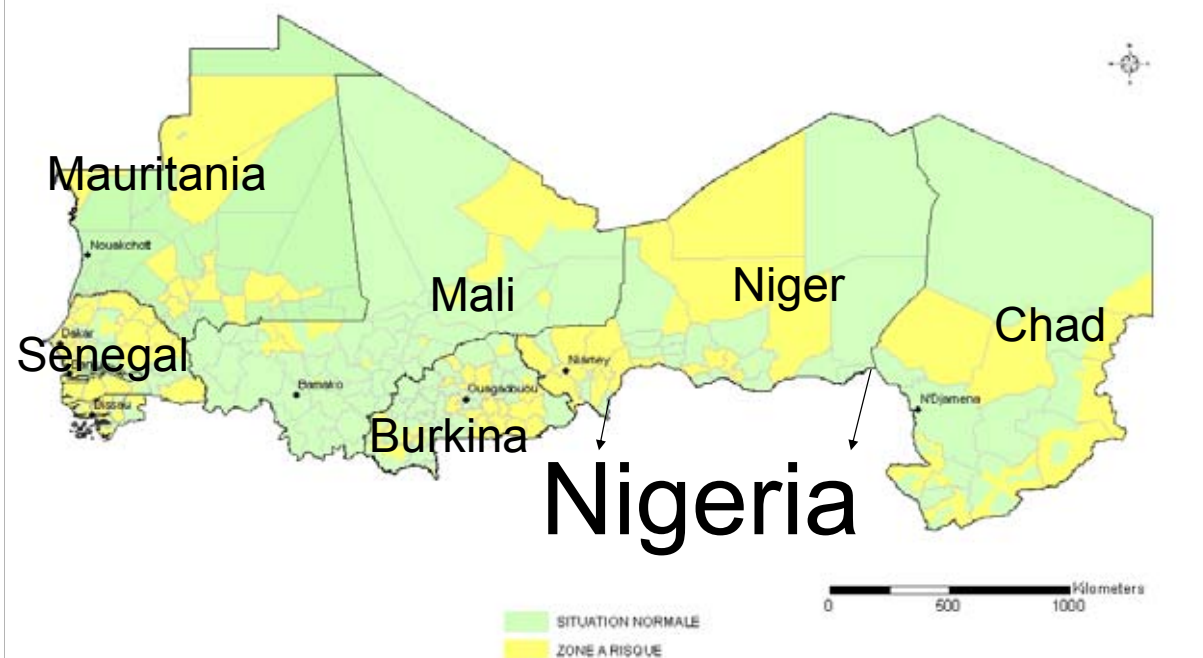
- World market prices are:
 - rising unusually fast,
 - more volatile,
 - greater duration of rise
 - greater breadth of products
- Why?
 - Weather
 - Declining world cereal stocks
 - Changing consumer demand (meat, poultry, dairy)
 - Rising energy prices → increased biofuel demand & increased agricultural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



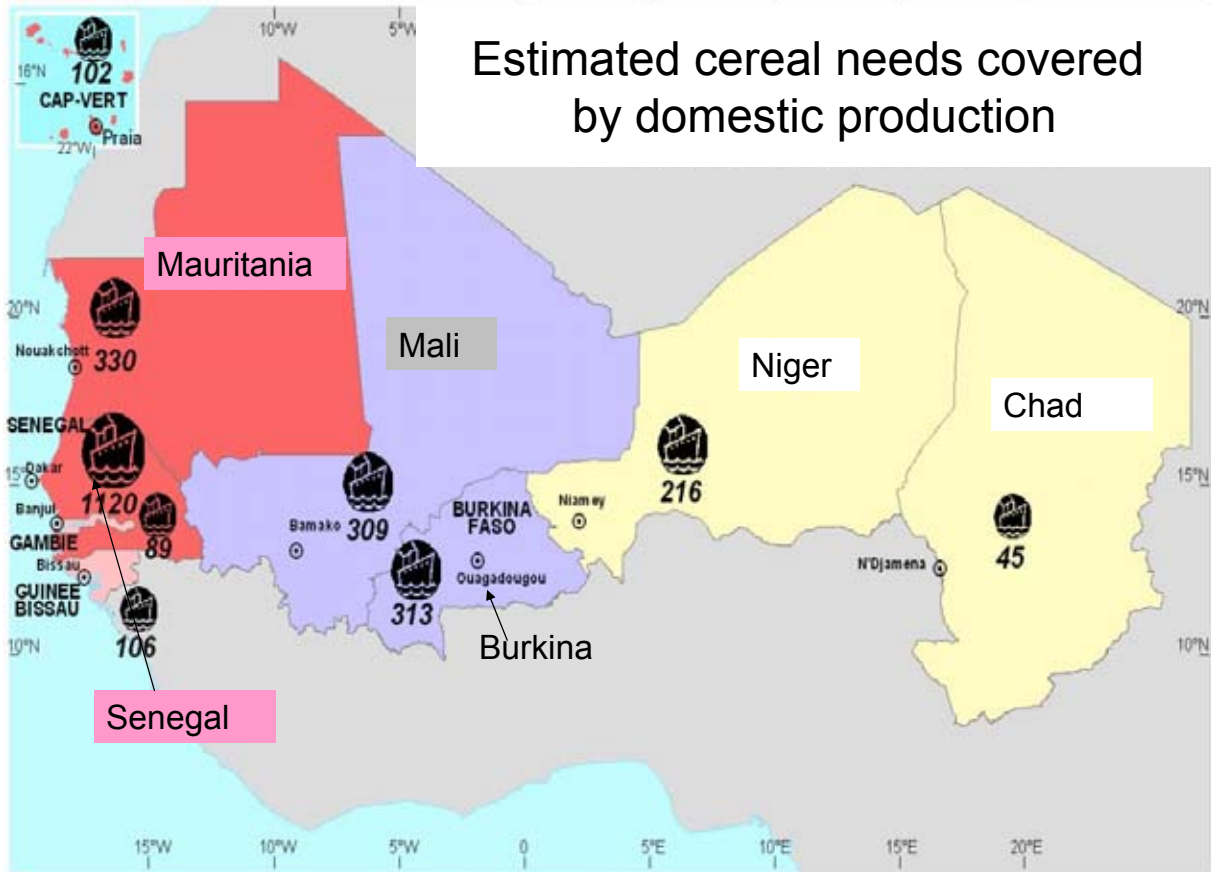
Key Drivers: Sahel

- 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

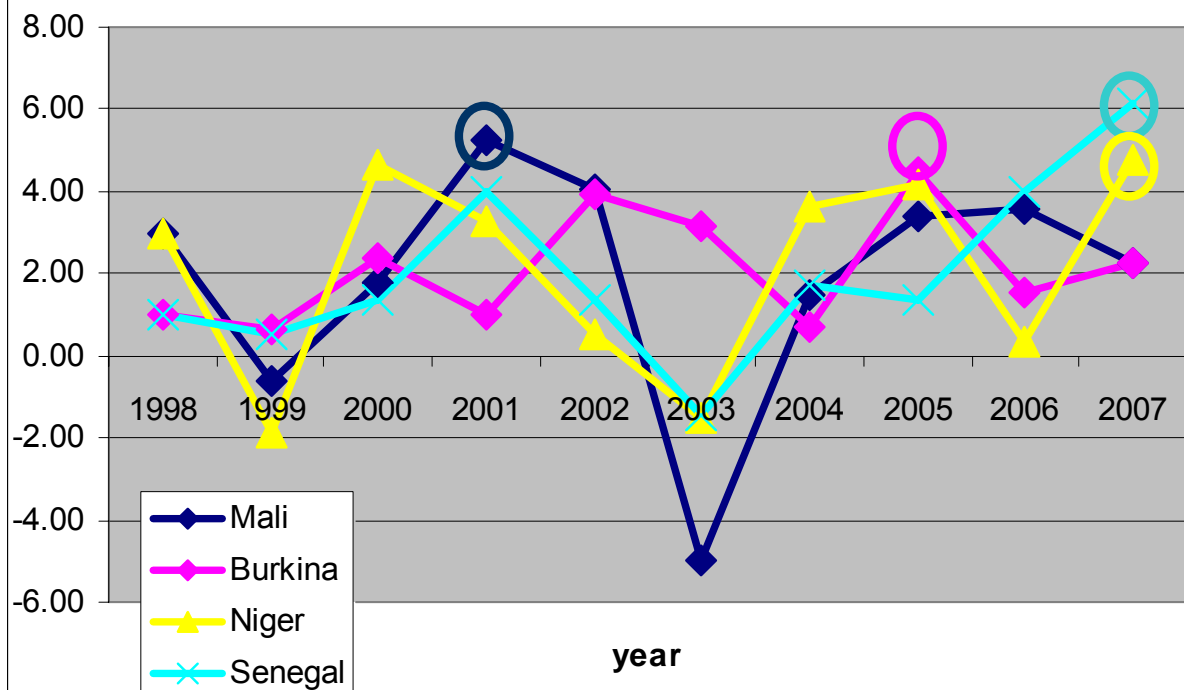
Sahelian Cereal Production

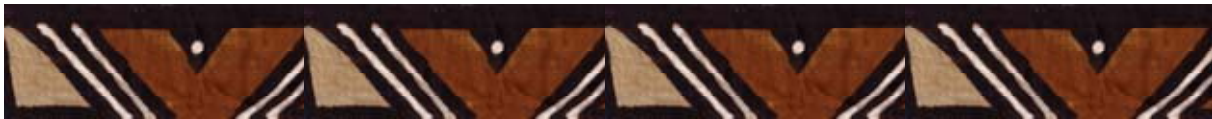
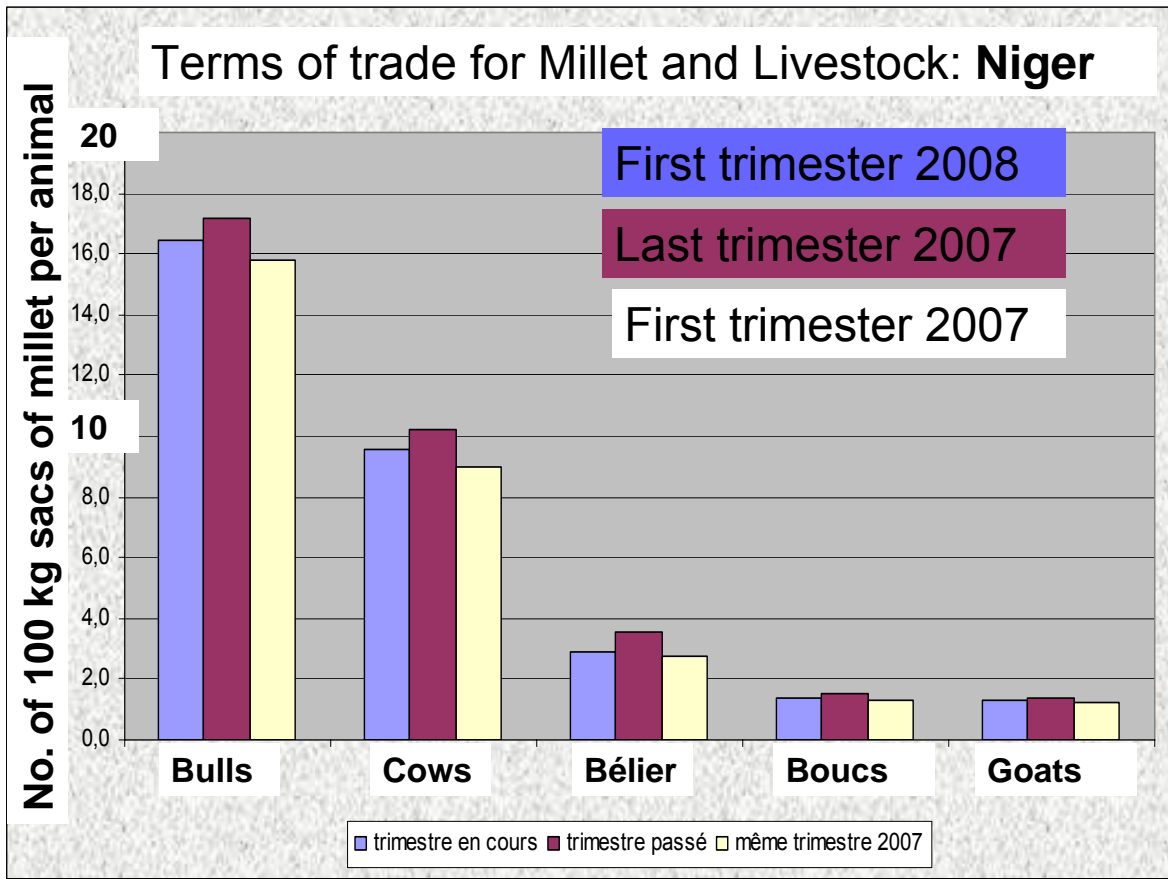


Estimated cereal needs covered by domestic production



Trends in Annual Inflation Rates: 1998 to 2007





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



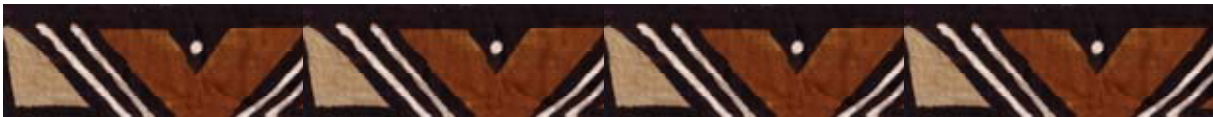
Available Policy Tools: Safety Net

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
2. Preserves incentives
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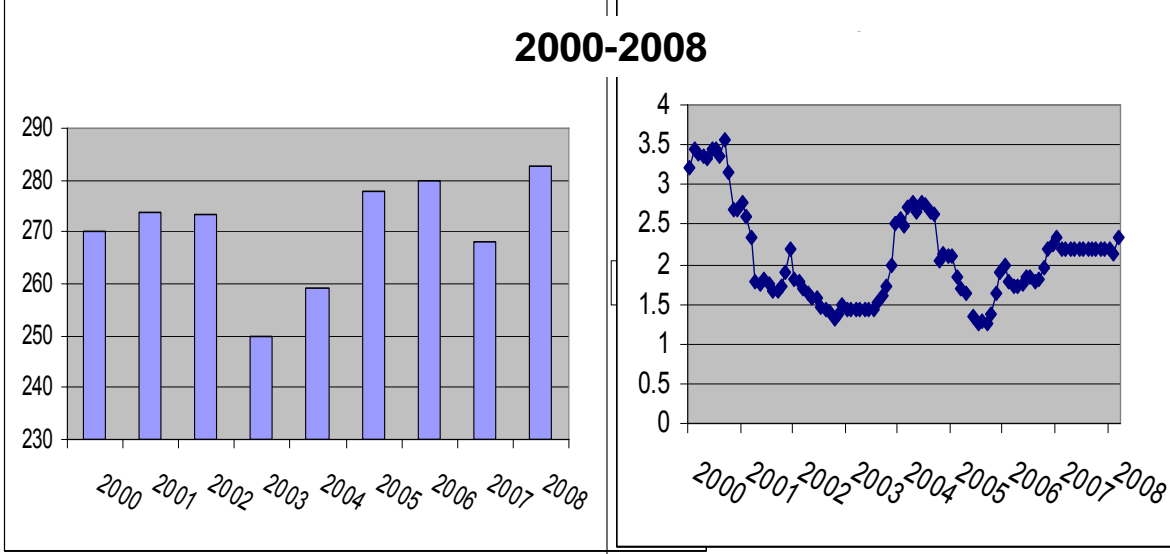
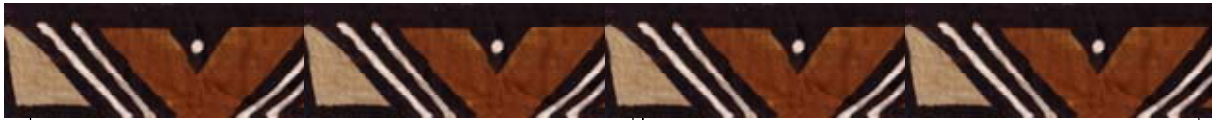


Responding with Improved Monitoring & Analysis

- 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**



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.

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

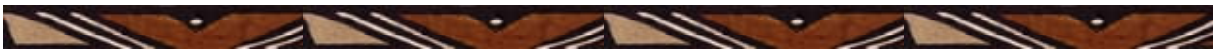


Possible Scenarios

World Market Cereal Prices: May-December

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

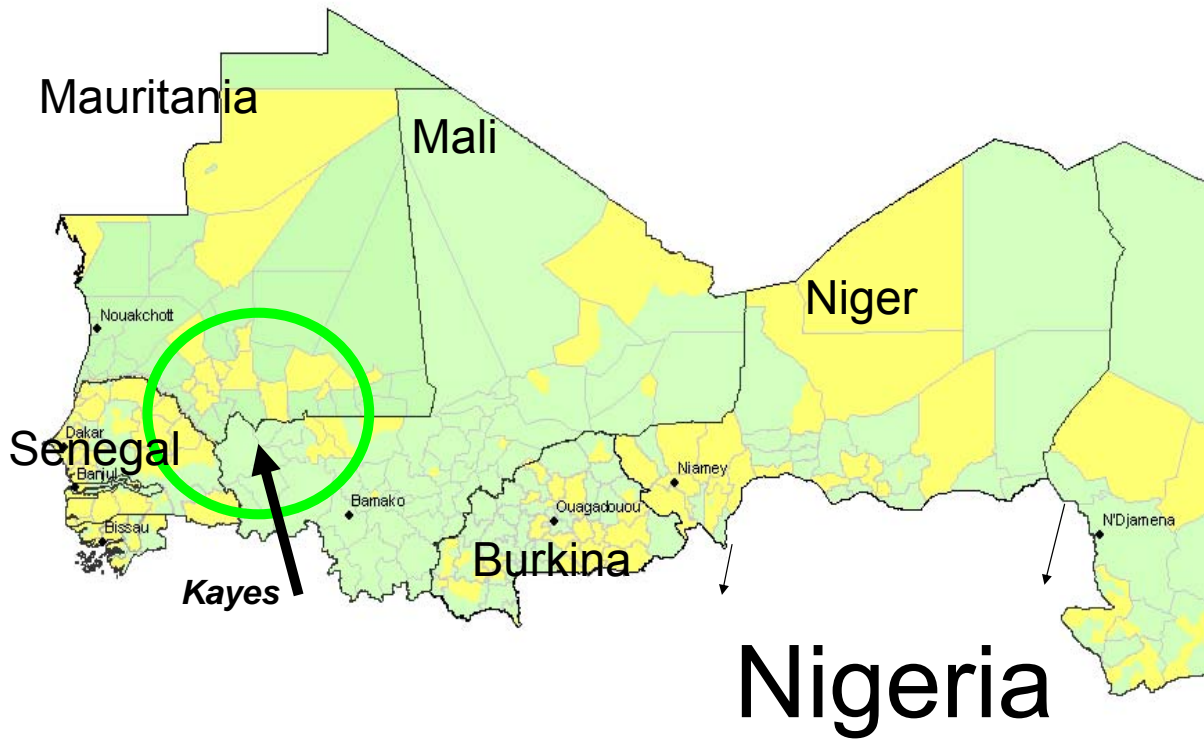
Best-Case Scenario



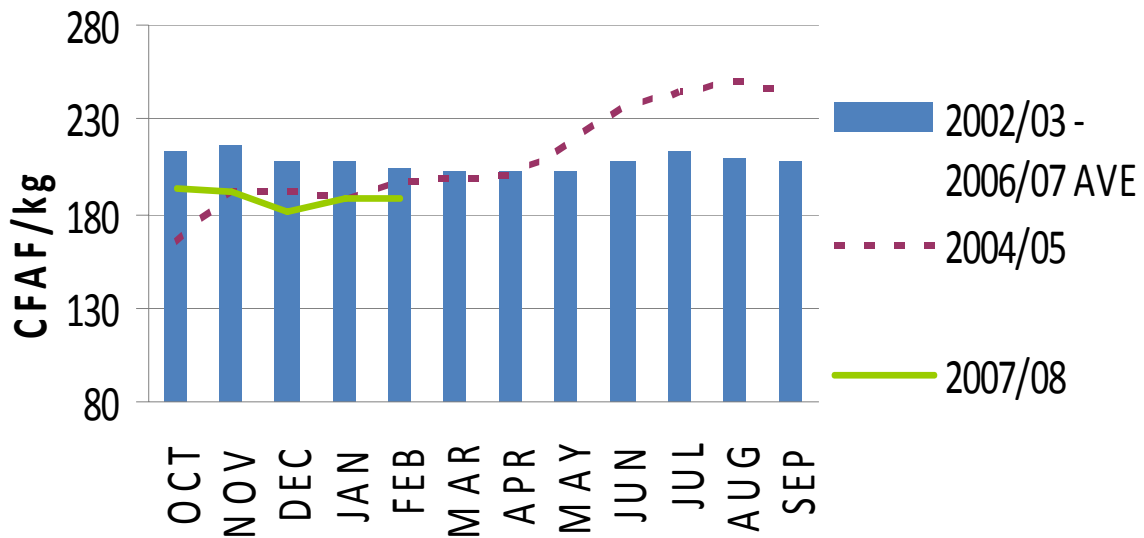
World Market Cereal Prices: May-December

		Declining
Rainfall & Harvest Predictions	Good	<p>Production stimulus: top dressings, inputs for work or “work delayed”</p> <p>Rebuild food security stocks: National: favor regional over imports when possible Rural: community storage programs</p> <p>Reinstate suspended tariffs and taxes: Build revenue Timing is an issue, often linked to competition in market</p> <p>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</p> <p>Remove export bans: 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

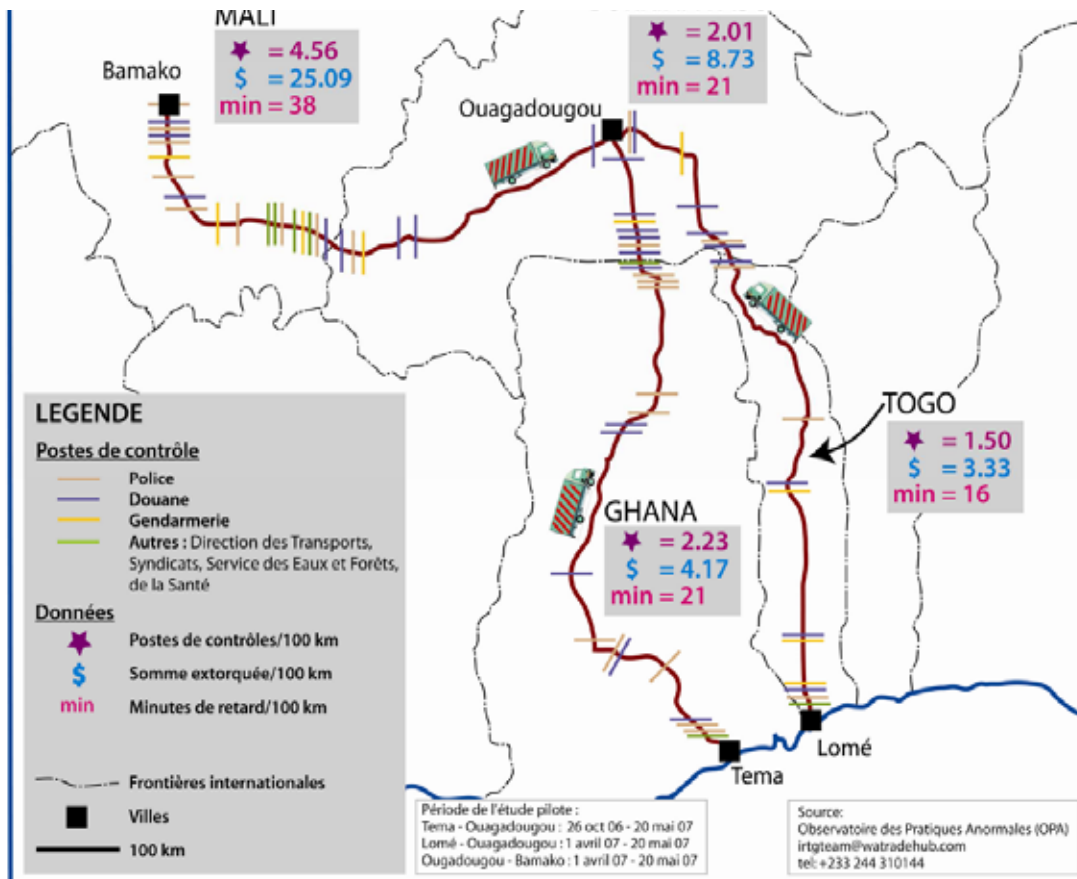
Production: Off season focus for cereals plus high value crops; livestock may need help with feed; input suppliers may need help with carry over stocks; poultry not clear.

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



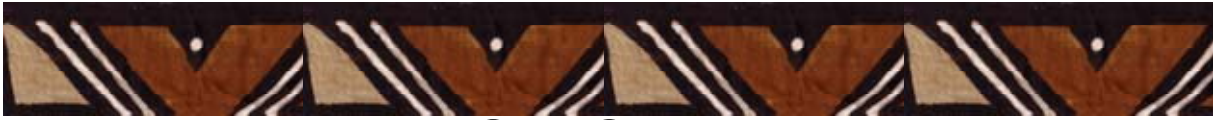
Medium-Term Considerations: Avoid

- 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



