Effectiveness of Policy Responses to the 2008 Food Crisis: Evidence from Five Countries in West Africa

Background

Several countries in West Africa responded to the 2007/08 high food prices by implementing short-term trade policy measures intended to reduce prices and minimize the negative welfare impact on consumers. However, evidence shows that despite the measures, the high food prices have had a devastating impact on the net buyers of food, families that relied on remittances, the urban households, female headed households and other vulnerable groups. FAO (SOFI 2008) estimated that rising prices had plunged over 24 million additional people into hunger in Sub Saharan Africa, increasing the number of undernourished in the region to a record 236 million. These negative outcomes question the effectiveness of implemented price mitigation measures.

During the second half of 2010 and into 2011 prices for most agricultural commodities have increased, some sharply and with high volatility, due to a number of factors including unexpected shortfalls in supply caused by unfavorable weather events, policy responses by some exporting countries, and fluctuations in currency markets.

The FAO Food Price Index averaged 232 points in April 2011 which is about 36 percent above its level twelve months earlier but 2 percent below the peak of 236 reached in February 2011. A sharp increase in international grain prices in April more than offset declines in dairy, sugar and rice, while oils and meat prices were mostly unchanged.[1] Concurrently, crude oil prices have been on the rise with its index reaching 219 in April 2011.[2] Amid fears of a repeat of the price surge experienced in 2007/08 or should the regional food supply and demand situation deteriorate in the future, countries may be tempted to use the same measures again.

This brief aims to inform policy makers and other stakeholders about the experiences gained in five countries in West Africa: Burkina Faso, Côte d'Ivoire, Mali, Niger and Senegal. The discussion focuses on short-term interventions that aimed at reducing food prices right away. In the analysis all prices are adjusted for inflation using the Consumer Price Index in each country and measured in 2005 constant CFA franc, which is a common currency.

[1] FAO Global food price monitor, May 2011.
[2] International Monetary Fund, Crude Oil (petroleum) Price index, 2005 = 100.

For ease of comparison, real international f.o.b. prices, Randfontein, South African wholesale price for white maize, and Bangkok, Thailand price for white rice are also illustrated along with domestic prices.

Summary of measures to mitigate price increases

As early as the second half of 2007 into the peak of the food crisis in mid 2008 the countries studied implemented several measures. These covered the areas of: (1) market, price and trade to mitigate price increases; (2) boosting agricultural productivity and production; (3) creating safety nets in favor of the most vulnerable; and (4) building national food reserves and strengthening local institutions to effectively monitor markets and food security situations. The following short-term measures were specifically implemented:

1. Suspension or reduction of import tariffs and value-added taxes to offset prices, increase domestic supply as well as food consumption through lower prices; increases in the number of import authorizations to traders for rice and other essential commodities as a means to boost supplies through importation (all 5 countries).

2. Placing of local cereals from food banks or national reserves onto the market to lower prices; sales of cereals at government subsidized prices, and targeted free distribution of food to vulnerable groups (Burkina Faso, Mali, Niger and Senegal).

3. Export restrictions on cereals and other food commodities in Burkina Faso and Mali; it is worth noting that food exports represented 17% and 12% of the value of total merchandise export estimated at US$ 419 million and US$ 915 million respectively according to the World Bank in 2005.

4. Direct price regulation for certain commodities, negotiations between government, importers and wholesale traders, mostly in the private sector, to establish indicative prices for some basic foods such as sugar, oil, and rice (all 5 countries).

5. Measures established to reduce excessive speculation in trading of main food commodities (Burkina Faso, Côte d'Ivoire, and Senegal).

6. Subsidy on the prices of fuel and other forms of energy (Côte d'Ivoire and Mali).

Food price trends during the crisis

The direct effect of a reduction or removal of an import duty is to lower the price of the imported good and thus contribute to reducing domestic consumer prices. It also lowers costs thus stimulates inflow of imports and contributes to lowering prices. Despites the measures taken, especially the elimination of custom duties and VAT, the increases in consumer prices for imported rice were not reversed but continued almost in all countries with the highest rates recorded in Mali, Senegal and Burkina Faso.

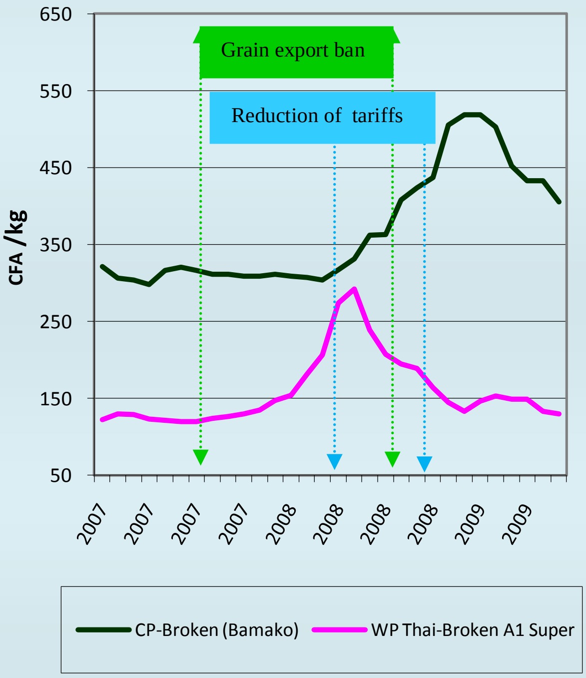

Figure 1: Consumer prices for imported broken-rice in Mali

In Mali a reduction of tariffs and customs fees on food imports was implemented from April to October 2008; a price control was imposed over imported rice while an export ban on cereals and fodder was effective between July 2007 and

August 2008. Notwithstanding these measures, prices of imported rice rose through most of the period (Fig 1). Considering the time lag necessary for import delivery and the decline in world prices of rice ahead (time-wise) of the peaks in domestic prices, the subsequent drops in the latter prices could hardly be attributed to the policy measures. In addition, rice export restrictions from key rice–growing countries had rendered global rice market tight and more volatile, and hampered the increase of rice imports.

The prices of most other food commodities retained their courses of increase (Fig 2-3) as was the case for millet in Burkina Faso, Mali, Niger and Senegal although these countries released local cereal stocks and food reserves onto markets and proceeded to free distribution of food or sold grain at subsidized prices in some communities.

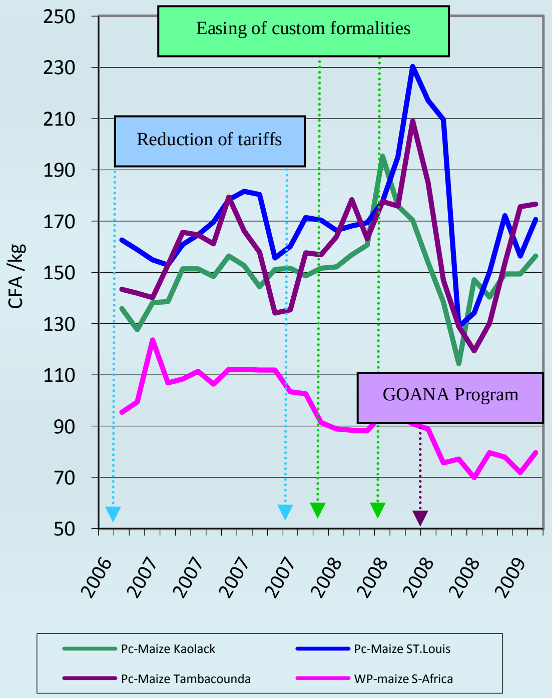

Figure 2: Consumer prices for maize in Senegal

Likewise, prices of local rice in Mali and Côte d'Ivoire, and cowpeas and maize in Niger increased while policy measures were in effect. The exceptions were slight price declines observed for maize in Côte d'Ivoire and cowpeas in Senegal. Yet, one implication of reduced tariffs and taxes was low government incomes and the ensuing large budget deficits which required subsidies from the West African Economic and Monetary Union.

Producer prices reacted positively to the food crisis in the short term and followed the same upward trend as consumer prices for the majority of the commodities. However, these prices are expected to decline if implemented cereal export bans were effective during the period (Burkina Faso and Mali), noting that other short-term policy measures were not intended to affect producer prices directly.

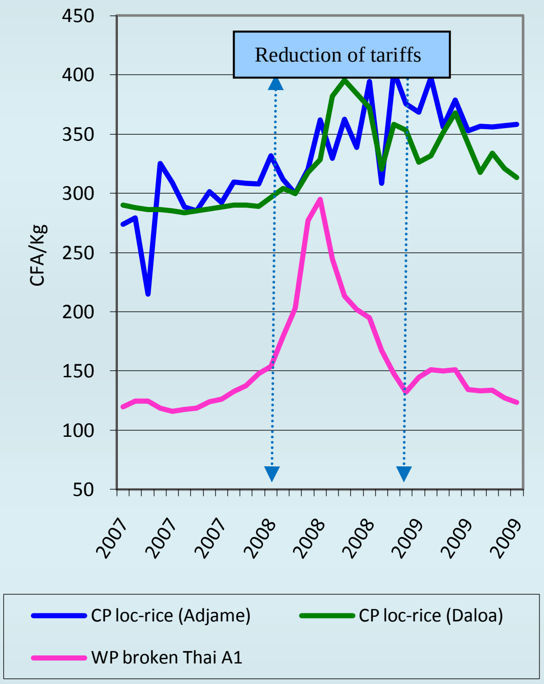

Figure 3: Consumer prices for local rice in Côte d'Ivoire

Figure 4 illustrates the ratio of producer to consumer prices for local rice and millet in Mali and Burkina Faso. In the latter case for example, producer prices for millet was just 35 percent of consumer prices in the first quarter of 2007 but increased to 57 percent by the end of the third quarter in 2008.

Despites the increases, producer prices were subject to higher volatility and ease to fall compared to consumer prices. Based on the two-year changes before and during the crisis, the rates of increase in producer prices are higher than that of consumer prices for millet in Burkina Faso and Niger, and local rice in Mali. Similarly, the rates of producer price decline were higher than those for consumer prices for millet (Côte d'Ivoire, Mali) and cowpeas (Senegal).

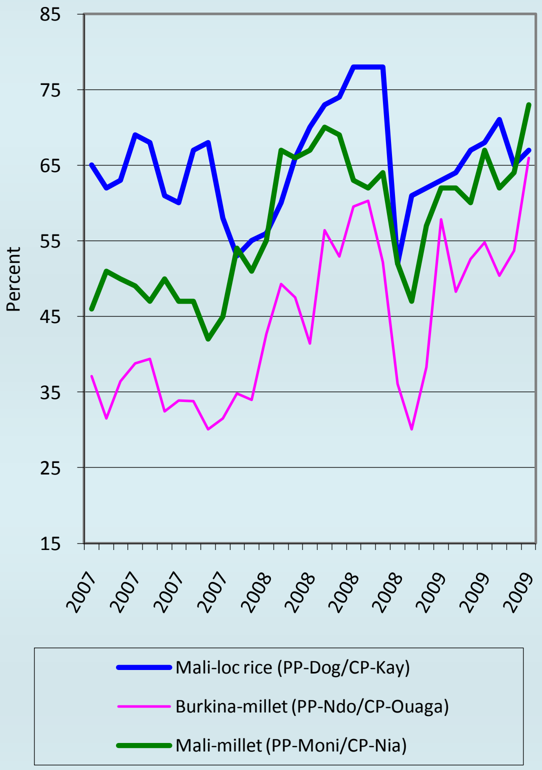

Figure 4: Producer price relative to consumer price in Burkina Faso and Mali

In the aftermath of the crisis, and together with a favorable rainfall season and several initiatives to increase productivity and boost food production (like the "Grand Agricultural Offensive for Food Security" in Senegal, input distribution schemes in Burkina Faso, Mali and Niger, and rice and other cereal production support programs in nearly all countries), high producer prices have improved farmers' incentives which led to a positive supply response and bumper harvest of cereals (Niger 19%, Senegal 25%, Burkina Faso 36%) by the end of 2008. As a result, producer prices showed little or no downward rigidity as their declines were relatively larger than those observed in consumer prices. As illustrated by millet prices in Burkina Faso, producer prices reverted back to being 35 percent of consumer prices in the last quarter of 2008.

Several reasons could explain the limited effects of the trade measures on consumer prices in the short run. First, the enforcement of certain market, price and trade policy measures proved costly or not possible to implement as there was a lack of functioning institutions or capacities thereof to do so effectively.

Second, cereal export restrictions did not sensibly affect domestic prices because of the weak ability to restrain the outflow of food commodities due to border porosity between countries. For example, independent monitoring of cross border cereal trade flows revealed the volumes traded between January and July 2008 compared to the same period in 2007 at selected border markets had increased for maize by 174% from Mali to Niger and 221% to Senegal, and by 30% from Burkina Faso to Niger.[3] In addition, export restrictions did not by any means eliminate bribery, illegal taxation or corruption used at times by operators to contravene regulations.

Third, transportation of food to certain border markets was rendered difficult as trucks had to be escorted by custom officers to ensure goods are not delivered across the border, thus increasing transaction costs which were eventually recovered through higher prices, therefore producing a negative or unintended high price on these markets. In other cases, intermediaries in the marketing system may have taken advantage of short-term measures by deliberately failing to pass onto consumers the cost reduction of policy measures as evidenced from imported rice prices illustrated earlier.

Finally, the releases of public cereal stocks on markets or distributions of food staples were either delivered at lower than optimal scale or well targeted (school feeding programs, vulnerable populations, specific extreme food deficit zones) in the countries (Senegal, Burkina Faso, Mali, and Niger) that their effects on the prices were not evident in this analysis.

[3] Michigan State University et al., Regional Conference on Food Price Transmission, 2011.

Conclusions

Regardless of their intentions, it is likely that the price and trade measures in response to the 2007-08 soaring price crisis in West Africa had contributed to some degree, to the mismanagement of the crisis by distorting the food marketing systems and the incentives of the agents involved, while resulting potentially to the higher volatility of food prices and increased government deficits.

1. As a general rule export ban is not a recommended measure because of the serious negative effects it is likely to have both in-country and abroad.

2. Import tariffs as well as VAT reduction or their suppression should be accompanied by prices monitoring and control of the repercussions on consumer prices.

3. Excessive price controls should be avoided as they lead to reduction in supply of staple foods because of disincentive for farmers to produce, stock holding by traders if they cannot make acceptable profit, which lead to even higher prices.

4. Food distribution in kind is generally advisable in the short term, through various programmes such as food for work, school feeding or general food distribution when situations are extreme, markets are poorly developed or food is in short supply. Because of the disruption food distribution can bring to local production, labor markets and consumption patterns, it is important that where possible the food distributed be locally procured.

5. Several programmes or projects designed or reinforced to boost food production in the seasons following the crisis also carried the risk of a collapse of producer prices. Putting in place government programmes, private marketing arrangements, and tracking market inefficiencies to prevent price collapses will provide and sustain incentives to producers.

In the medium and long run, improving the performance of markets and addressing structural issues in agriculture may be the answer. Given the importance of food markets in fighting hunger, attention should be paid to higher price volatility, by improving the functioning of markets and ensuring greater market transparency.

Other supporting measures should not be neglected; for instance establishing appropriate levels of emergency stocks, assuring a fluid and efficient trade in food products as well as setting up risk insurance and management schemes at different levels of the food commodity value chains, will improve the ability to cope with any forthcoming crises. Different tools and guidelines are available for achieving such objectives; conducting analysis of their feasibility in the context of each country or the West Africa region as a whole should be pursued.

Finally, structural problems in the agricultural sector remain the key constraints in most countries of the sub-region, hindering the capacity of the farming sector to increase productivity and food security. Promoting an enabling environment through investing in the provision of infrastructure, improved access to finance, technology, capital and services as well as other public goods, for the benefit of all actors in the various value chains, will unleash part of the agricultural productivity and growth potentials in West Africa.

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