

Agricultural and Food Price Volatility

African views and perspectives

G20 Outreach Session

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Summary Record



Background

Agricultural and food price volatility is a common challenge for all members of the international community.

voice must be heard more strongly. Bearing in mind the distinction between “volatility” and “high prices”, African countries were among the hardest hit by the price hikes of 2007-08. The social crisis that followed influenced African governments and African regional organisations to assist the most vulnerable populations and to initiate structural policies aimed at increasing food production. Considerable public investments have been made. The effectiveness of these African initiatives, responding to the specific needs of the continent, must be analysed, better taken into account and supported by development partners.

Tackling price volatility in food and agricultural markets requires decisive action from G20 countries.

Prevention and monitoring tools to curb volatility and mitigation measures to protect the poor must be put in place. Beyond the immediate price volatility problems, the more fundamental long-term challenge – extreme poverty and hunger - must be addressed. Solidarity between rich and poor countries is a precondition to address this global problem. Regular opportunities in which Africa can deepen the dialogue with its partners and take stock on progress made are important to reduce divisions, share experiences and build solidarity.

In this respect, the SWAC Secretariat invited African representatives, experts and development partners from OECD countries to share experiences and highlight African views. High-level representatives from governments, intergovernmental and regional economic organisations, research-development centres, African regional banks, farmers’ and civil society organisations, the private sector as well as technical and financial partners discussed the impact of excessive price volatility on African economies and on food security of their populations. While participants shared information on ideas and actions already taken by African States and regional economic organisations, they were also seeking new practical solutions and policy options to deal with the causes and consequences of price volatility within the African context. The conference provided African perspectives and inputs for debates within the G20.

The Conference was organised by the Sahel and West Africa Club Secretariat (SWAC/OECD), in collaboration with the OECD Trade and Agriculture Directorate and the OECD Development Cluster.

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Volatility and its impact on African countries

“Volatility” refers to significant, rapid changes in economic variables over time. Not all price variations are problematic, and agricultural prices in particular are always subject to a certain degree of cyclical and seasonal variability. But variations in prices become problematic when they are large and cannot be anticipated and, as a result, create a level of uncertainty for producers, traders, consumers and governments. Such uncertainty can lead to sub-optimal decision. Variations in prices that do not reflect market fundamentals are also problematic as they can lead to incorrect decisions. Behind concerns about volatility lie concerns about price levels, and behind both lie concerns about food security, particularly of vulnerable consumers.

Africa is particularly affected by the impact by price volatility and of high prices.

In 2010, a quarter of the world population suffered from malnutrition, with 30% of those affected coming from Africa. The continent’s population is growing so fast that cutting malnutrition rates in half by 2030 would not prevent the number of Africans suffering from hunger from rising significantly. In addition, nearly 60% of people in Sub-Saharan Africa depend on agriculture, and at least 80% of them are smallholder farmers with less than two hectares of land. Food accounts for up to three-quarters of household expenditures. Rising food prices weaken most vulnerable livelihoods, reduce the financial resources of farmers and thereby increase the risk of small farmers to fall into poverty. In urban settings, access to food remains a major concern for food security. Riots over food prices as reaction to the food price spikes during 2007-08 have drawn international attention to this problem.

African countries are faced with the double consequences of internal and external volatility.

Internal volatility is not a new, but recurring phenomenon because of non-predictable climatic conditions, political crises, high costs of transactions, etc. Internal volatility is worsened by external volatility, mainly due to the transmission of turmoil in global agricultural markets. This uncertainty impedes public and private investments. In 2008, analyses have shown that the transmission of world prices to domestic markets was more or less quick and complete depending on the characteristics and the response measures adopted in each country.

More commitment must be taken by African States, the regional economic organisations and the international

community in order to address the structural causes of food crises (poverty, living conditions, access to basic social services (health, education), territorial inequalities, dysfunctioning of markets and weak investment in agriculture). Despite enormous agricultural potential, many African countries are significant net food importers. Significant investments are needed in infrastructure, energy, the business environment as well as in innovation to improve the productivity of African agriculture.

Volatility is only one aspect of the problem but not the main cause of persistent food and nutritional crises in Africa.

Policy responses

► To reduce the extent of the phenomenon

- **Create a more effective global governance:** More transparency on the stocks and better access to information on global commodity markets, business transactions of agricultural products, etc. should reduce excessive volatility. It would also help avoid counterproductive decisions by policy-makers and market participants. It is therefore urgent to:
 - **Develop information-sharing tools and a network of key players** to improve the availability and access to existing data and market-relevant information at the international level;
 - **Strengthen data collection and analytical capacities** as well as dissemination networks in developing countries;
 - **Further analyse price transmission mechanisms on the African continent** to better understand linkages between global, regional and domestic markets and mitigate negative consequences of external volatility through risk management tools.
- **Promote regional integration and improve the business environment:** African States must increase efforts to support the building of well-functioning regional markets in order to open-up intra-regional trade opportunities and better connect farmers to the market (removal of trade barriers and restrictions, reduction of transaction costs, better infrastructure, more reliable access to energy, capacity-building for local actors, etc.). African regional organisations have a key role in creating such an environment.

► To mitigate the impact of volatility and protect vulnerable populations

- **Develop effective alert systems and safety nets:** African governments need to pursue the setting up these tools for producers and vulnerable households. Governments need to be prepared to take action before the crisis starts in order to respond timely. Regional information-sharing initiatives such as the Regional Food Security Information System (SRISA) of the Economic Community of Central African States (ECCAS) or the ECOWAS Agricultural Information System (AGRIS) would need stronger support.
- **Analyse the effectiveness of policy measures** taken in response to the price hikes of 2007-08: While some measures have effectively protected vulnerable populations, others were costly and counterproductive. Strengthening policy dialogue between African countries would help sharing lessons, capitalising on various experiences and setting-up best practices. Successful African initiatives could be scaled-up and supported by development partners.
- **Promote the establishment of emergency food reserves at all levels (local, national and regional):** Food stocks at the village, local and national level are an important part of food crisis management strategy in Africa. Conceptual frameworks to establish regional reserves were already developed by regional economic communities and NEPAD. Feasibility studies and pilot projects need to be launched in order to collect concrete experiences in the collective management of these regional stocks, in particular within ECOWAS and SADC. Strong and sustainable commitment of African States and their regional economic communities is needed to make rapid progress in the setting-up of regional emergency food reserves.
- **Set-up of Regional Finance Facilities** to provide support for vulnerable net food importing countries in times of crisis. Based on the principal of solidarity among its member countries, UEMOA has collected first-hand experience in 2008. Regional Finance Facilities should be managed by African regional economic organisations. An International Finance Facility could complement these efforts.

► To address root causes of food insecurity

- **Go beyond the commitment made at Maputo in 2003** (spend 10% of national budgets for agriculture). The NEPAD Agency, in collaboration with the AfDB and UNECA, should be responsible for lobbying targeting African States and the African Union.
- **Prioritise on improving agricultural productivity** through financial, human and material investments (Research & Development, training for local farmers, better access to credit and inputs, connecting small farmers to the market).
- **Accelerate the implementation of a business environment:** Rising prices will benefit producers and States only if incentive measures (attractive profits for investors and producers) are part of coherent policies that encourage an improvement of the business environment and attract more investment in agriculture.
- **Improve farmers' access to markets and risk management tools:** African agricultural producers must take full advantage of the upward trend in prices. Policy measures to be taken include developing agricultural and marketing infrastructure, tax incentives and appropriate land policies as well as insurance mechanisms against risks to the stable income for producers.
- **Improve analytical and anticipation capacities:** As the food situation is evolving rapidly, short-term and structural trends (changing consumption patterns, increased global food demand, urbanisation, population growth, climate change) require continuous monitoring and analyses. African leaders must get access to scientific information and decision-making tools with equivalent quality to those of their counterparts from around the world.
- **Strengthen African ownership:** In the spirit of the "Paris Declaration" and the "Accra Agenda for Action", development partners should provide direct support to African agricultural investment and food security programmes, within the framework of the Comprehensive Africa Agriculture Development Programme (CAADP/NEPAD).
- **Protect most vulnerable economies:** Development partners also need to promote more equitable trade policies (fewer trade distortions caused by export subsidies). A reflection process on how to protect emerging markets in developing countries could help identify new, innovative tools.

Proposed follow-up actions

1. **A pilot initiative for a "Regional Emergency Food Reserve in West Africa":** Building on the conceptual framework of the RESOGEST initiative, this pilot programme, led by ECOWAS/UEMOA/CILSS with the support of the SWAC/OECD Secretariat, FAO and the WFP shall be implemented by 2012. The NEPAD Agency could help scale-up this initiative in other parts of Africa and promote the sharing of experiences.
2. **Lobbying in favour of the Maputo objective** on national budgets for agriculture, by the NEPAD Agency, AfDB and UNECA.
3. **A pilot experience in public resource mobilisation for agriculture and food:** Led by African governments and regional economic organisations with the support of the NEPAD Agency, AfDB, FAO, IFAD and the OECD, this initiative aims at increasing public resources for agricultural investment through fiscal reforms and other mechanisms.
4. **An initiative to improve analytical and anticipation capacities in Africa,** in the field of agriculture, food issues as well as on rural transformation. This project shall be co-ordinated by the NEPAD Agency, AfDB, FARA, UNECA and FARA with support from the FAO, IFAD and the World Bank, in close collaboration with African States and regional organisations.
5. **A pilot experience to create a more favourable environment for sustainable investment in agriculture for food:** Led by African governments and regional economic organisations, this initiative shall be co-ordinated by the NEPAD Agency, AfDB, FARA, UNECA, with support from the FAO, IFAD, OECD and the World Bank. A special focus shall be placed on sustainable financing mechanisms for Research & Development and training for farmers.

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Your comments are welcome!

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