STRATEGIES TO IMPROVE FOOD SECURITY IN AFRICA

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The Priority

Global food prices were high and volatile in 2011, a trend likely to continue in 2012. The floods in Thailand, the debt crisis in Europe, rising oil prices and the increased price of fertilizer and other inputs, unpredictable policy changes such as the reintroduction of price controls in Kenya, all indicate that global food prices will remain unpredictable in 2012. Despite these challenges, since 2008 many countries have finalized new agriculture development strategies based on the African Union's Comprehensive African Agriculture Development Program (CAADP), which was launched in 2003 to boost agricultural productivity on the continent through increased public investment. As of 2011, 26 African countries have finalized agriculture strategies and signed CAADP compacts, 15 are already in various stages of implementation, and 10 are newly engaged or have yet to start (CAADP, 2011). These compacts focus primarily on improving agriculture inputs through increasing agriculture production and productivity.

A number of countries in Africa have been successful in increasing the supply of agricultural products including Rwanda, Mali, Burkina Faso and Malawi. However, domestic price fluctuations, even in countries with increased supply, have still continued to be a problem. One reason is the inability of countries to manage supply and demand cycles distributed across different regions in their territory and, therefore, ensure a steady supply throughout the year. For example, parts of Kenya's Rift Valley experienced grain surpluses in 2011 despite the drought in the northeast. Grain prices dropped as farmers with surpluses faced market access issues to drought stricken areas and many farmers feared wasted product or selling their grain at low prices (Shiundu, 2011). If these issues of managing the storage, marketing and trading of agriculture commodities are not adequately addressed in Africa, they will undermine the success achieved in production and further increase food price volatility.

Why Is It important?

If African countries fail to secure access to markets and competitive prices for their farmers, they risk inciting unrest in the population similar to the food riots witnessed in the summer of 2008 and repeated episodes of famine like the one in the Horn of Africa in 2011. A sudden increase in the supply of agriculture commodities not matched by an equivalent increase in demand will cause decreased prices in food and agricultural products during the harvest and will leave farmers in debt. Some Malawian maize farmers and Nigerian sorghum farmers have recently experienced this problem. In the Ivory Coast, a lack of access to competitive markets for cocoa has forced many farmers to switch to other cash and food crops. This is potentially very costly for the government since it might lead to a drop in export revenues, a rise in deficits and consequently hurt the government's ability to provide services to the population. African governments must therefore address the fundamentals of market supply and demand to control commodity price volatility, a long-term component for food security. Short-term emergency responses to food security, such as provisions for heavily subsidized inputs, will not address Africa's food insecurity problem in the long run and may in fact further distort prices.

However, available storage for food and agricultural products can help dampen demand when there is a surplus and bolster supply when there is a shortage. In either case, it helps to stabilize prices, which maintains farmer income and consumer access to food. In the absence of storage facilities, seasonal price fluctuations are even higher than those witnessed at the international level. In Tanzania for example, between 2008 and 2010 seasonal fluctuation in grain prices averaged over 250 percent more in regions where buyers did not have access to storage facilities for grain. But in regions with storage facilities, price increases did not exceed 130 percent.

What Needs to Happen in 2012?

As implementation of the country agriculture strategies continues, the CAADP plans should be reviewed and updated to include the issue of storage as an important component of the country strategies. While some government support for agriculture inputs such as seeds and fertilizer is often recommended, governments should generally not be in the business of providing storage facilities to farmers. Typically state marketing boards with a storage mandate have been effective at managing food prices and security. Governments must therefore engage the private sector to encourage their participation in the storage and marketing process for agricultural and food products. Fortunately, the consultative nature of the CAADP process allows governments to include the private sector at a very early stage of strategy design.

In this regard, African governments should support local farm-based cooperatives to build community silos for commodity collection and primary aggregation. These silos should be owned by the local communities and the state should be involved in ensuring that the silos meet acceptable quality and service standards. Second, African governments have a responsibility to put in place a system for dispute resolution and to ensure that contracts are appropriately designed and respected. Third, governments should help local communities get access to loans or work through commercial banks to partially guarantee loans so that local communities can build silos. Encouraging local farmer cooperatives to build, own and operate community silos will also help reduce waste. It is common knowledge that between 20 to 40 percent of agriculture production in Africa is lost in transportation. Thus, storage facilities close to the farm-gate will help increase overall stocks. Finally, African governments should facilitate the development of private sector-run warehouses backed by a warehouse receipts system.

Under a warehouse receipt financing program, agricultural commodities of a certain quantity and quality are stored in an accredited warehouse and a receipt is issued against them. With the appropriate legal framework, these receipts become negotiable instruments or derivatives that can be traded, sold, swapped or used for collateral to support borrowing. The receipts could help farmers adjust trading decisions and as a result help smooth commodity price volatility. Government-financed warehouses built to support the operations of now defunct commodity marketing boards should also be sold or leased to the private sector to operate. Governments must ensure that the proper prerequisites needed to operate the aforementioned financing program are in place. This includes a formal legal enforcement system, warehouse infrastructure, transparent spot-and-futures markets and derivative instruments.

Ultimately, the business of storage is a risky one that requires farmers and producers to have access to much greater information sets on current production, demand, available stocks and future demand patterns when making decisions. As a consequence, African governments, farmers and producers will need to develop new tools to help manage the risk associated with storage. In the next few years, Africa will see the emergence of innovative financial instruments facilitated by a surge in telecommunication applications designed to facilitate trading in agriculture commodities. In 2012, African governments should proactively work with the private sector to safeguard markets and to design adequate systems to ensure all farmers have access to these instruments. Countries should also work with the Food and Agriculture Organization to ensure that farmers have access to adequate price information under the G-20 endorsed Agriculture Market Information System program. Furthermore, governments must also ensure that the regulatory frameworks in place in their countries are consistent with changing international financial regulations. Finally, those African countries working toward signing CAADP compacts in 2012 and beyond should build a strategy for grain storage management into their investment plans to prevent future famines brought on by inadequate storage and marketing infrastructure.

References

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