7. The Challenges of a Regional Approach Price Instability Management: The Case of West Africa

Arlène Alpha (GRET) and Raphaël Beaujeu (IRAM)

Summary

With the exception of the EU's Common Agricultural Policy (CAP), agricultural market regulation and price instability management are usually envisaged in the national or international framework. However, at a time when regional integration processes are tending to become stronger and are seen as favored frameworks for development, the question of the regional scale to conduct such policies has arisen. This is notably the case for the Economic Community of West African States (ECOWAS) that is envisaging providing itself with regional agricultural market regulation instruments and instability management instruments for the most vulnerable.

This paper aims to provide food for thought on the interest and limits of the regional scale to conceive this type of policy. After a rapid theoretical overview of the issue, the paper presents the primary challenges through the situation in West Africa.

Regional Integration as a Factor to Reduce Price Instability

The majority of trade worldwide takes place between countries in the same region. In West Africa, however, even though the institutional integration process is fairly advanced, intra-regional flows remain limited (around 12%).

Beyond the static effects of trade flow creation and deviation, regional integration can help lower price volatility by attenuating:

- exogenous instability thanks to the expansion of the market: less market segmentation, more effective resource allocation, facilitated investments;
- imported instability through the establishment of an appropriate common external tariff (CET); and
- endogenous instability, thanks to more predictable policies via the harmonization of national policies or even the elaboration of common policies, the attenuation of lobbies' influence, better spatio-temporal decisions by operators, strengthening of the tradable nature of agricultural products ("commoditization"), and lower transaction costs.

The Relevance of the Regional Level to Manage Price Instability in West Africa

a) The Regional Dimension of Price Instability in West Africa

The recent food crises in West Africa revealed:

- their regional dimension;
- the growing interdependency of economies in the region and the legitimacy of managing instability at the level of production basins and consumption basins; and
- the diversity of instruments that can be mobilized for food security in conjunction with the diversity of causes of instability.

b) The Regional Integration Process in West Africa

The choice of the regional scale to manage agricultural and food price instability is also justified by the fact that regional integration is tending to speed up: WAEMU customs union, adoption of a Trade Liberalization Scheme (TLS) by ECOWAS (even if the TLS is still far from reality in the field), ECOWAS common external tariff (CET) in the process of being finalized. In this way, the theoretical advantages of regional integration when it comes to lowering price instability could potentially come into play in West Africa. In addition, ECOWAS intends to intervene directly to regulate agricultural markets and limit the effects of price instability on the most vulnerable.

c) Regional Intervention: What Types of Instruments and Prerogatives?

One must distinguish between:

- price stabilization instruments; and
- instruments to correct the effects of this instability on incomes.

The regional approach must also take into account the respective fields of intervention for states and the region. There can be a simple coordination among states or true integration (common policies).

Various levels of delegating sovereignty can be envisaged: concurrent or shared responsibilities between the national and regional level; exclusive community responsibilities. The distribution of responsibilities relies on two principles:

- The subsidiarity principle: with the exception of those areas under its exclusive responsibility, the region takes action only when its action is more effective than action undertaken at the national, sub-regional or local level.
- The proportionality principle: the region's action must be limited to what is necessary to attain the objectives in the treaties.

Public Market Regulation Instruments

a) Border Instruments in the Framework of a Customs Union

Forming a customs union is supposed to make it possible to regulate imports at the borders of the union and encourage intra-regional trade within the free trade zone. For this to happen, it is however necessary that the CET offer sufficient protection and incentive, and that the free trade zone be real. WAEMU's CET is sharply contested for offering insufficient protection and not being sufficiently coherent. The current effort to define ECOWAS's CET is an opportunity to correct this by introducing a 5th tariff band at 35%. Due to the diversity of national situations, it has been difficult to reach an agreement, however.

The West African experience also illustrates the methodological difficulties involved in reaching a political consensus on the level of protection desired with, on one side, a statistical approach of aggregating tariff preferences and, on the other, an approach based on policy negotiation.

ECOWAS is envisaging other border instruments to mitigate instability imported from international markets: seasonal quotas, specific tariffs (rather than *ad valorem* tariffs), and a safeguard measure. However, the same difficulties as those involved in setting the CET are being encountered because of the heterogeneity of countries in the region.

What is more, the countries in the region are not equally sensitive to imported price instability. Landlocked countries and countries within the franc zone are less exposed to price instability than coastal countries and countries outside the franc zone.

b) <u>Regional Networking of Public Stocks</u>

A regional approach to public stocks seems relevant in West Africa. Indeed, this approach makes it possible to:

- have a denser "grid" of public stocks on the regional scale, and therefore greater efficiency in de-stocking operations and the supply of deficit zones;
- spread the cost of storage among the countries in the region; and
- promote regional trade between surplus and shortfall zones.

There is already a network of the various public food security stock management structures, based on the principle of solidarity among the countries in the region. Each stock-holding country promises to liberate 5% of its stocks for the "regional stock."

This initiative could be the basis for reflection on setting up a buffer stock system combining (national and regional) public stocks and private stocks. However, the institutional and political conditions have not yet been met, notably in regard to certifying the private operators, monitoring their practices, and applying sanctions in the case of speculative abuses. Public stock management should furthermore be transparent and depend only on the general interest. Involving the private sector and in particular socio-professional organizations could also help improve management.

Other technical and methodological issues must also be resolved: determining which markets and products to regulate, what the guaranteed purchase price should be for producers (including the question of possible different purchase prices in function of transport costs), and what the critical stock volume is.

Social Safety Nets: Is Regional Action Possible?

The Justification for Safety Nets as an Instrument to Accompany Price Stabilization

Safety nets (i.e. all actions destined to prevent populations from "falling" into a poverty trap) help manage price instability in two ways:

- They can *complete* measures that tend to act directly on prices.
- They make it possible to lower the effects of instability on incomes. They intervene where market mechanisms fail or are not longer enough (disasters, etc.).

Safety nets for consumers can have a compensatory role as systems aiming to smooth producers' incomes with the aim of increasing food production. They can in this way be seen as a condition for the establishment of these systems insomuch as they make them politically and socially possible.

Social safety nets are a social protection policy instrument. Their regional implementation remains tricky on the same footing as all social protection policies. For instance, even the European Union—the most advanced example of regional integration—has not harmonized its social protection policies.

Current State of Safety Net Policies and the Justification for Regional Action

Safety net policies involve two types of actions:

a) Preventing and Mitigating the Risk of Crisis

Implementing safety net instruments requires a particularly high degree of information. Indeed:

- Vulnerability to food insecurity, which determines the probability of crisis, depends on a multitude of factors that are often interdependent on each other.
- Safety nets are net transfers to individuals, and are particularly costly for governments.

On the sub-regional level, the state of food security information systems and crisis prevention is still heterogeneous. While the landlocked countries in the Sahel have relatively complete systems, the other countries usually have only very partial systems, essentially designed to prevent crises due to supply deficits.

Many information systems perform poorly when it comes to grasping market availability problems, and do not allow one to analyze the resources households have to withstand the various types of risk.

In high-potential zones, high and stable prices can be a form of incentive for net surplus producers. But, for the majority of producers in the sub-region—who are net cereal buyers—high prices increase the cost of cereal purchases.

For vulnerable populations that have low production capacities or insufficient monetary resources, the issue of food prices is therefore a key risk factor. It is therefore important to track market prices.

Even more than in preventing supply deficits, preventing crises due to market access problems gains in efficiency when it is done on the regional scale (tracking cross-border flows and the sub-regional transmission of prices).

Four strong elements can be inferred from the analysis of cereal market operations, notably millet and maize on the sub-regional level. They reveal the interest of regional information management:

- the existence of shocks that happen simultaneously in different countries;
- the distinction between markets "in advance" on which prices drop first with the arrival of new harvests;
- the existence of a few "lead" markets: prices on these markets determine the prices on a large number of other markets but are determined by only a small number of prices on other markets; and
- the impact of production and trade with Nigeria, Ghana and Côte d'Ivoire on the food economies of Sahelian countries.

This aspect of the safety net policy depends above all on governments. The region would intervene on three different levels:

- on the policy level by promoting a harmonized regional framework to analyze structural causes of vulnerability and instruments that could lower this vulnerability;
- on the institutional level by developing decision-making assistance capacities to prevent crises on the regional level and target interventions; and
- on the academic level by deepening knowledge of how the major cross-border zones in the food economy operate.

b) The Regional Approach and Management of Full-Blown Crises

Most countries have set up food crisis response capacities with a panel of instruments used based on the elements provided by information and early warning systems. The proper operation of the information – alert – consultation – decision – implementation chain is therefore crucial to the ability to respond in a satisfactory manner. Analysis of the 2008 crisis shows, however, that a long road remains to be traveled to attain this result (poor anticipation, national measures contrary to common policy principles). It reveals a deep-reaching problem of national coordination and crisis management: temporary establishment of safety nets by outside actors (WFP, FAO, NGOs) little integrated in public policies and not contributing to national capacity building (particularly since capacities are insufficient); numerous new actors (NGOs, etc.) are not included in the consultation and coordination systems.

The country-donor co-management system for National Security Stocks (NSSs) is an example of coordination among national institutions and external donors. However, while the rigor of the co-management system allows the NSSs to be mobilized in a timely manner, it can also limit the flexibility and reactivity necessary in the case of disasters.

To manage crises, the region cannot replace governments in the implementation of social safety net instruments. However, the ECOWAP program proposes measures on two levels:

- Support for "innovative" national initiatives: *national contingency plans,* initiatives destined to improve continuity between the warnings issued by national and regional information systems.
- The establishment of supplementary regional instruments: *regional contingency plan*; instruments destined to strengthen regional cooperation in regard to security stocks: technical cooperation and stock pooling.