Recent trends in global food prices

1.1 FAO’s global Food Price Index

The FAO publishes a global Food Price Index (FPI) which measures monthly price changes for a basket of food commodities comprising meat, dairy, cereals, oils, fats, and sugar. The index fell to an 11-month low in October 2011, down to 216 points. This represents a 4 percent or nine-point decline from its September level. This is 9 percent below the peak of 238 reached in February 2011, though prices recorded for October were still some 5 percent higher than in the corresponding period last year.

The recent drop in the FPI reflects sharp decreases in the global price of most commodities, particularly sugar, grains, and oils, with meat affected the least. An improved supply outlook for a number of commodities and gloomy global economic forecasts, particularly for Europe, are exerting a downward pressure on international

Chart 1 Monthly Food Price Index

1 Jointly prepared by ESTA and OSAN team comprising: Oliver J. M. Chinganya (ESTA.2), Vincent Ngendakumana (ESTA.2), Bouchaib Boulanouar (OSAN.2), Joseph Coompson (OSAN.3), Sebastian Okeke (OSAN.1), Olagoke Oladapo (OSAN.4), and Edison Rurangwa Mpyisi (OSAN.0).
prices. This is being partly offset by strong demand from emerging countries, where growth is proving more resilient. However, according to the FAO’s Food Outlook (November 2011) commodity prices remain highly volatile, reflecting unstable equity markets and exchange rate fluctuations.

Sugar has experienced far greater volatility than the other food commodity groups of meat, dairy, cereals, oils and fats, over the past year, as can be seen in Chart 2. Sugar peaked in January 2011 when it hit 420. This was followed by a sharp decline in February through to May, when it fell to 312 points. June saw a reversal, with the international price reaching 400 in July 2011, but large global supplies of sugar have exerted a downward pressure since that time. The FAO Sugar Price Index averaged 361 points in October 2011, down 5 percent from September and 10 percent from its peak in July 2011.

The price indices for meat, dairy, cereals, and oils and fats have been trending downward since June 2011, due to increased supplies and high stock levels. However, these prices are still 5 percent higher than at the same period last year.

The FAO global Meat Price Index is showing less volatility but prices are generally lower than for other commodities (Chart 2). It averaged 177 points in October, which was marginally down from September but still 12 percent, or 19 points, above the corresponding period one year ago and only 3 points down from its 20-year high recorded in April 2011. Over the first ten months of 2011, meat prices were at a higher average level than in 2010.

The FAO Oils/Fats Price Index averaged 223 points in October, down 15 points, or 6 percent, from September. The sizable drop reflected favorable soybean harvests in South America, strong palm oil output in Southeast Asia, and record sunflower seed crops in the Black Sea region, combined with reduced global import demand.

1.2 International cereal prices

International cereal prices have declined in recent months, with the FAO Cereal Price Index averaging 232 points in October, down 5 percent or 13 points from September.
This was 15 percent below its peak in April 2008, but still 5 percent, or 12 points, higher than last year’s already high level (Chart 2).

The recent fall in cereal prices was triggered by larger than anticipated world production combined with fears of a global recession weighing on overall demand, particularly from the feed and biofuels sectors. The global price also reflects a strengthening of the US dollar as well as large export supplies from the Black Sea region.

In particular, the export price of wheat declined slightly in October 2011, to 10 percent below its August level. However, this was still about 4 percent higher than the corresponding period in 2010. The price of maize decreased by 12 percent from August to October 2011; but this was still 16 percent higher than in September 2010. With regard to rice, its global price has been increasing since April 2011. In October 2011, it was about 7 percent higher than in August 2011, and 22 percent above its level 12 months previously (see Chart 3).
2.1 Recent trends in food prices

According to the FAO, cereal prices in most subregions in Africa have remained high or are increasing compared to 2010, owing mainly to a reduction in cereal production in the region.²

**Eastern Africa** At the subregional level, the overall 2011 cereal production is forecast at 34.4 million tonnes, which is about 9.5 percent below the previous year’s record level, but on a par with the last five-year average. The Horn of Africa (including southern Ethiopia, northeastern Kenya, southern and central Somalia, and Djibouti) has experienced the worst drought for several decades. In the western and northern parts of the subregion, the crop output is expected to remain firm in the main crop-growing areas of Ethiopia, western Kenya, and the green belt of South Sudan.

Chart 4 shows that in Nairobi, Kenya, the wholesale maize price rose steadily from US$ 0.22 per kg in September 2010 to US$ 0.51 per kg in July 2011 before falling to US$ 0.34 per kg in October 2011. By contrast, in Bujumbura, Burundi, the retail maize price has remained more or less stable since September 2010.

² FAO, Crop Prospects and Food Situation, No. 3, October 2011.
Chart 5 shows price trends in Mogadishu, Somalia. The retail prices of maize and sorghum rose steadily from September 2010 to August 2011 before falling sharply. Rice affirmed a similar trend, with its retail price gradually edging up from May 2011, peaking at US$ 0.88 per kg in August before moderating.

Chart 6 depicts price movements in Khartoum, Sudan, for wholesale sorghum (feterita), millet, and wheat over the period September 2010–October 2011. The chart shows that sorghum (feterita) and millet prices declined during the period September 2010 to March 2011 but have trended upward since then. On the other hand, wheat rose steadily from October 2010 to March 2011 before starting to fluctuate. It reached a high in April 2011 (US$ 0.71 per kg), before falling to a low in May 2011 (US$ 0.43 per kg). Since then, it has generally shown an upward trend.

Central Africa This subregion has experienced elevated food prices due to a drop in food production. The FAO’s provisional forecast for countries that are self-sufficient cereal producers (e.g. Cameroon) indicates a drop of around 5 percent in cereal output for 2011 compared to 2010. However, countries with a high dependence on cereal imports (e.g. Gabon) should expect to face a rise in prices. By contrast, relatively good overall food production in the Central African Republic has seen food prices fall in that country.

Great Lakes In Rwanda and Burundi, favorable harvests in both countries have led to falling food prices. In the Democratic Republic of Congo, retail prices for cassava changed little during the first half of 2011, while the price of local rice has continued to rise, particularly in Kisangani. The retail price of maize peaked in May 2011, but has declined since then (Chart 7).

Southern Africa This subregion’s food price movements in the second half of 2011 have largely been downward, thanks to good harvests of maize, which is the main food crop. The generally low prices have helped to stabilize food security in the subregion. The record harvests in countries like Zambia and Malawi were the result of favorable rainfall patterns and the increased availability of agricultural inputs. However, countries like Zimbabwe and Swaziland, which suffer from irregular rains, recorded lower outputs. In Angola, Lesotho, and
Chart 6: Trends of Selected Wholesale Cereal Prices in Sudan - Khartoum

Chart 7: Trends of Selected Cereal and Cassava Retail Prices in Some DRC Cities
Namibia, localized flooding negatively impacted on crop development and reduced national cereal production. South Africa registered a decline in maize production, but this was due to reduced plantings in response to high level of stocks and the low prices that maize was achieving at the time of planting.

Chart 8 presents a long-term picture (from January 2007 to October 2011) for maize prices in selected countries in the subregion. It shows that wholesale white maize prices in Randfontein, South Africa, have risen steadily since July 2010. Similarly, the retail price of maize in Maputo, Mozambique, also evidenced an upward trend with some fluctuations. During the same period, the retail price of maize in Zambia rose steadily until April 2011, when it started to moderate.

Western Africa Coarse grain prices have increased slightly in recent months in most countries in the subregion, following seasonal patterns. Imported commodities, such as rice and wheat, were hit by higher prices earlier in the year.

Chart 9 depicts retail price movements of various cereal commodities in some West African capitals. The retail price of millet in Dakar (Senegal), and in Niamey (Niger) declined slowly up to January 2011, then started to gradually rise. Retail sorghum prices in Niamey have fluctuated over the period and are now registering a decline, whereas in Dakar, they have been on an upward trend since March 2011. On the other hand, the price of imported rice has been relatively stable since April 2011 in Niamey while showing far greater volatility in Dakar.

North Africa The subregion is heavily dependent on wheat imports from the international market to supplement local production. Prospects for the 2011 harvests are though generally favorable; indeed, aggregate wheat output for the subregion is estimated at 19.6 million tonnes, an increase of 22 percent over last year. As a result, the subregion’s import requirements will be lower than in the previous marketing period (2010). The volatility in international food prices has not translated into high domestic prices in Tunisia and Morocco, due to government interventions which include subsidizing commodity prices and/or reducing import taxes on some food items. In Algeria, however, food prices have been increasing steadily since 2010.
2.2 Implications for Africa

Given that a large proportion of poorer households’ incomes is allocated to food purchases, any increases in food prices will hit the poorest most severely, impeding food access and further aggravating the food insecurity conditions of vulnerable groups.

Although the international prices of cereals have declined in recent months, average cereal prices remain about 5 percent higher than their already high level in the previous year.

High food prices are putting pressure particularly on Least Developed Countries (LDCs), many of which are in Africa. These countries have seen their food import bills soar by almost one-third since last year. This sends a strong signal to international development agencies, aid organizations, and governments to step up their efforts to address food insecurity issues in the continent, as outlined in Section 3 following.

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3 FAO, Food Outlook, November 2011.
The food security situation in Africa

3.1 A continental overview

The FAO’s Crop Prospects and Food Situation Report forecasts the continent’s cereal production for 2011 to be 158 million tonnes, which is 2 percent lower than the 2010 production. Apart from North Africa, where cereal production in 2011 is expected to increase by 12.6 percent compared to 2010 (due to adequate rains), the other African subregions are expected to record a decline in production, as follows: Central Africa (-2.8 percent), West Africa (-3.4 percent), Southern Africa (-6.0 percent), and East Africa (-9.7 percent).

Some of the problems that negatively impact the food security situation in various regions of Africa include but are not limited to the following: uncertainty regarding overall crop production prospects, civil insecurity, rising prices for imported food commodities (such as rice and wheat), continued humanitarian crises, and pockets of vulnerability due to localized crop production shortfalls, decimation and losses.

For these reasons, African countries are experiencing varying degrees and types of food insecurity, as outlined below.

(a) Countries recording an exceptional shortfall in aggregate food production/supplies as a result of crop failure, natural disasters, interruption of imports, disruption of distribution, excessive post-harvest losses or other supply bottlenecks. Countries in this category include: Lesotho, which has been a victim of heavy rains, flooding and prolonged water logging; Zimbabwe, which experienced economic constraints and reduced production in southern areas; and Somalia, which has experienced a severe drought and the ongoing civil conflict.

(b) Countries experiencing widespread lack of access, where a majority of the population is unable to procure food from local markets, due to very low incomes, exceptionally high food prices, or the inability to circulate within the country. Countries with lack of access to food include Djibouti, which has been hard-hit by high food prices; Somalia, which has suffered severely from lack of rainfall and from conflict; Eritrea, which is affected by economic constraints, high international food and fuel prices, and the effects of drought; Liberia, which is only slowly recovering from war-related damage and is constrained by inadequate social services and infrastructure, poor market access, and a massive influx of refugees from Côte d’Ivoire; Niger, which is affected by the lingering effects of the 2009/10 food crisis, and the large number of returnee migrant workers from Libya; and Sierra Leone, which has been affected by slow recovery from war-related damage and by the depreciation of the local currency, which has eroded households’ purchasing power.

(c) Countries experiencing severe localized food insecurity. These include 16 African countries: Benin, Burundi, Central African Republic, Chad, Congo, Côte d’Ivoire, Democratic Republic of Congo, Ethiopia, Guinea, Kenya, Madagascar, Malawi, Mozambique, South Sudan, Sudan, and Uganda. The reasons for localized food insecurity in these countries are many and varied, including: reduced early harvests, combination of crop failure and deep poverty, low food stocks, persistent high prices, civil insecurity restricting access to agricultural land and food, influx of refugees, civil strife, internally displaced persons, poor rains, localized flooding, etc.
It should be noted that the situation may worsen further in some countries, due to unfavorable prospects for crop production. This may happen, for example, in Kenya because of delayed and insufficient 2011 long rains; in South Sudan due to erratic rainfall in some producing areas; and in Sudan because of the late onset of the rainy season followed by long dry spells in June and July. Famine conditions are also likely to spread in coming months in Somalia.

It is noteworthy that of the estimated 32 countries around the world that are in need of external assistance as a result of crop failures, conflicts or insecurity, natural disasters, and high domestic food prices, 24 of these (three-quarters) are in Africa.

However, the Horn of Africa (HOA) merits particular attention as its food security and nutritional status remain critical, as highlighted below.4

3.2 Food security situation in the Horn of Africa (HOA)

Agriculture is the mainstay of the economies in the Horn of Africa (Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, South Sudan, and Uganda).

The sector employs over three-quarters of the adult population in the subregion and contributes a major share of the overall GDP; with its contribution varying from 3.7 percent in Djibouti to 52.3 percent in Somalia.

The climate in the HOA subregion is characterized by low and erratic rainfall with wide inter-annual variations resulting in periodic and cyclical droughts; consequently, crop production is limited. Livestock accounts for between 19.8 percent and 88.2 percent of the agriculture sector’s contribution to GDP. Most livestock is raised under traditions of nomadic pastoralism in the Arid and Semi-Arid Land (ASAL) areas of the HOA. Pastoralism, the dominant livelihood in the region, has evolved over the years while seeking to adapt to the reality of the persistent rainfall shortage. The ASALs constitute about 75 percent of the HOA’s land area of 5.2 million square kilometers; their rainfall patterns range from 50mm to 500mm per annum.

Map 1 The humanitarian crisis in the Horn of Africa (source: OCHA, 2011)

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4 Ibid.
Worst drought in several decades

The Horn of Africa is experiencing the worst drought in several decades. It started in late 2010 with the failure of the October–December rainy season in southern Ethiopia, north-eastern Kenya, southern and central Somalia, and Djibouti. This led to failed crop production, the depletion of grazing resources, and a massive livestock mortality rate. As if that were not enough, the 2011 April–June rains started late and were erratic in many parts of the region, preventing the recovery of pastures and affecting the yields of the main seasonal crops.

The ongoing conflicts, in conjunction with recurring and severe drought, have caused widespread famine and loss of life both to humans and the livestock on which they depend for their livelihoods. The crisis has also been characterized by ecological degradation, high local food prices and food insecurity, and increased poverty, especially among women and children. It is hardly surprising then that the subregion is unlikely to attain the Millennium Development Goals (MDGs) for poverty reduction and sustainable environmental development by the target date of 2015. Indeed, the challenge is immense, since over 50 percent of the populations in the subregion are classified as living in absolute poverty, that is, on less than US$ 1 per day. The crisis in the subregion has been described by the USAID-funded Famine Early Warning Systems Network (FEWS NET) as one of the world’s most severe food security emergencies.

Worst-affected areas

Perhaps no country in the Horn of Africa is as badly affected as Somalia. It is reported that in Somalia, indicators of acute malnutrition, acute mortality, and food access have progressively deteriorated. As a result, about 750,000 people are currently estimated to have a high mortality risk over the next four months if the humanitarian response is not scaled up. According to the United Nations Office for the Co-ordination of Humanitarian Affairs (OCHA), at least 75 percent of the estimated 241,000 malnourished children in Somalia reside in the volatile southern regions, where the country’s internationally recognized Transitional Federal Government is battling an insurgency in the latest iteration of the country’s 20-year civil war. In some of these areas, one in three children is malnourished, which is more than double the recognized emergency threshold of 15 percent. In August 2010, Somalia’s national level of acute malnutrition stood at 15.2 percent, but it was even higher (16.6 percent) in the south. Five months later, the situation had deteriorated in most parts of the country and a national rate of 16 percent was reported, peaking at 25 percent in the south.\(^5\)

This critical situation has been exacerbated by massive displacements of people both within Somalia and into neighboring countries. There are currently 1.4 million Internally Displaced Persons (IDPs) and about 917,000 Somali refugees in Kenya, Ethiopia, Djibouti, and Yemen. According to FAO and FEWS NET, the food security outlook for the coming months is highly dependent on the perfor-

mance of the October–December short rains, coupled with the effectiveness of ongoing humanitarian interventions. The forecast for improved October to December rains in most of the eastern Horn and ongoing relief interventions are expected to ameliorate the situation later in the year.

Although the western parts of the Horn of Africa did not experience such severe weather patterns as the eastern areas, they are nonetheless experiencing a difficult food security situation. Affected areas include northern Uganda (Karamoja and Acholi region), Sudan especially in Darfur, South Kordofan and Blue Nile and South Sudan, especially along the northern border (due to disruption of trade activities and the extra burden of internally displaced persons and returnees, following the referendum in January 2011).

In the main crop-producing areas of central and northern Ethiopia, western Kenya and central Sudan, rainfall is expected to be above-average until December; indeed, some floods are already being reported in Kenya and Uganda. It is likely that the food security conditions will improve by the end of the year with the arrival of the newly harvested crops.

Box 2 Main causes of the crisis in the Horn of Africa

The roots of the crisis can be linked to the following three main factors:

Drought in terms of frequency rate (2005, 2006, 2008, and 2011) and the increasing severity that is being experienced – partly due to climate change;

Poor governance and low institutional capacity in the HOA, resulting from the subregion’s inadequate representation in governance systems, low capacity to deal with natural disasters and emergencies, and conflicts and displacements – especially in Somalia;

Low access to infrastructure which stems from historical low investments in infrastructure and marginalization of rural communities with limited access to basic services.

UN Office for the Coordination of Humanitarian Affairs, Horn of Africa Crisis Situation Report No. 20, October 28, 2011.
3.2.1 Short-term responses to the crisis by the international community

- Immediate humanitarian response has been coordinated through the UN system;
- Most of the short-term responses are focusing on food aid, health, and shelter;
- According to the OCHA Situation Report of August 11, 2011, the humanitarian response needs for 2011 are close to US$ 2.4 billion, however, there is a funding gap of US$ 1.2 billion;
- The African Union (AU) organized a pledging conference on August 25, 2011, which raised US$ 351 million, of which the AfDB pledged US$ 300 million;
- The AfDB has also contributed US$ 4 million in emergency assistance from its Special Relief Fund.

3.2.2 Medium- to long-term responses: from crisis to resilience

Identifying the challenges

Currently, there are three major challenges to humanitarian assistance in the Horn of Africa:

- Insecurity: Insecurity along the Kenya/Somalia border region continues to impede the humanitarian effort, adversely affecting distribution of relief aid to hundreds of thousands of drought-affected Kenyans and to hundreds of thousands of refugees in northeastern Kenya.
- Heavy rainfall: In Kenya, heavy rainfall in northern districts is impacting negatively on the humanitarian response to drought victims.
- Funding coverage: As at October 27, 2011, funding coverage for the appeals for the four drought-affected countries in the Horn of Africa region was as follows:
  - Djibouti Drought Appeal – 53 percent;
  - Ethiopia Humanitarian Requirements (July to December 2011) – 73 percent;
  - Ethiopia refugee-related requirements – 51 percent;

7 UN Office for the Coordination of Humanitarian Affairs (OCHA), Horn of Africa Crisis Situation Report, No. 20, October 28, 2011.
• Kenya Emergency Humanitarian Response Plan – 68 percent;
• Somalia CAP – 79 percent.

Strategic approach

Any medium- to long-term interventions in the area must be guided by the following principles:

• National and regional responses are needed, adopting a regional integration perspective;
• The Bank’s comparative advantage in supporting its regional member countries to scale up infrastructure for Regional Integration must be leveraged (covering the subsectors of water, transportation, energy, communications, etc.);
• Partnerships with development organizations need to be strengthened to avoid duplication of efforts, and to leverage each organization’s specific areas of expertise and harness synergies;
• Partnerships with relevant pan-African institutions need to be intensified – in particular IGAD (Intergovernmental Authority on Development) and the AU (African Union) but also with other stakeholders and civil society organizations (CSOs);
• Strengthen partnerships with policymaking bodies and research institutions at all levels;
• Scale up human and institutional capacity building to promote agricultural productivity, including through agricultural science and technology;
• Support initiatives for conflict resolution and peace building;
• Lessons from the Sudan experience of Bank intervention to support peace building institutions and initiatives should be drawn and integrated;
• The AfDB’s experience, together with that of other donors, from past interventions in pastoral areas should be capitalized to ensure the sustainability of the investments;
• Coordinate with other partners and initiatives to create synergies between hard (infrastructure) and soft (policies, regulations, capacity building) interventions.

3.2.3 Integrated Resilience Program

The Bank recently commissioned two studies, which have identified a number of resilience-building interventions. These studies were: (i)
Regional Study on the Sustainable Livestock Development in the Greater Horn of Africa and (ii) Support for Mapping, Assessment and Management of Transboundary Water Resources in the IGAD Sub-region. The studies proposed six program areas for intervention:

1. Water Resource Development;
2. Pasture, Land and Environment;
3. Livestock Production, Health and Management;
4. Finance, Marketing and Infrastructure;
5. Policy, Institutional and Regulatory Framework; and

More specifically, the Bank is intending to launch an Integrated Resilience Program to enhance livelihoods and resilience through improvements in the following areas:

- Water and Rangelands Management to enhance the availability of and access to quality water and forage in a sustainably managed environment;
- Livestock Infrastructure for Market Access and Livestock Management (roads, telecommunication, markets, agro-processing, etc.) aimed at facilitating livestock trade; and
- Human and Institutional Capacity Building targeting livestock value chain operations and management, policy formulation, legal and institutional framework to improve agriculture and livestock systems; and Peace building and conflict resolution to minimize conflicts that hamper livestock production in the region.

It is clear that, given the scale of the crisis, the Bank’s intervention in the HOA will call for a mix of several financing instruments and mechanisms that the institution has at its disposal, namely:

- Regional Operations Window with cost sharing;
- Regional Public Good (under the Regional Integration) for soft interventions;
- Reprioritization of ADF (African Development Fund) 12;
- Portfolio Restructuring; and
- Fragile States Facility.
Conclusions

The causes of the food insecurity situation vary widely across individual countries and from one subregion to another. The principal problems include the following: prolonged droughts and unpredictable rainfall, uncertainty of overall crop prospects, civil insecurity, increasing prices of imported food commodities, continued humanitarian crises, and pockets of vulnerability due to localized crop production shortfalls, decimation and losses.

In the Horn of Africa, the situation is highly critical. Since no meaningful and sustainable development can take place in the absence of peace, efforts are being made by the international community, especially the African Union, to bring the conflicts in the subregion to an end. Such efforts should be given the utmost support. Lasting peace must return to the HOA in order for long-term solutions to bear fruit.

The biophysical and human contexts in the ASAL areas of the HOA show many similarities. There is a need, therefore, for greater harmonization of the water-related programs in the subregion. The most critical intervention that will affect pastoral livelihoods is improving the availability of water. While surface water utilization is governed by treaties, all the countries of the HOA are under-utilizing the water that is available, largely because of inadequate infrastructure. There has also been inadequate attention to water-harvesting technology that would supplement water supplies at the household level. Despite the severe scarcity of water, water use efficiency is low and the culture of conservation, including water recycling, has yet to be adopted.

The distribution of pastures and forage across the subregion is determined by climatic conditions. Rangelands form an immense natural resource and the major source of feed for livestock herds. National policies, however, continue to give low priority to issues of forage production and rangeland management. It is important that governments are sensitized on the major contribution that forage and pasture production can make toward improving the livelihoods of pastoral communities and thereby ensuring economic development and food security.

A major investment program in multipurpose water mobilization and management, coupled with a sound land management strategy, would provide a powerful entry point to the development of ASAL regions, focusing on pasture improvement, livestock production, crop production, and fisheries. These investments should aim at increasing and diversifying food production and improving household revenues in an environmentally sustainable and cost-effective way.

However, national and regional institutional capacity to manage the shared resources is very low. Cooperation between economic blocs, namely IGAD, the East African Community (EAC), and CSOs among others, is necessary to ensure capacity enhancement and sustainable development in the subregion.

Policies and regulations that are conducive to enhancing regional trade, sustainable access, and use of natural resources and private investments are also essential to the success and the sustainability of the benefits derived from any intervention.