

SÃO TOMÉ & PRÍNCIPE

Market and Food Security Profile, September 2011

Context, objectives and methodology

São Tomé and Príncipe is a small insular country with an overall population of 164,000 inhabitants; its economy is largely dependent on foreign investments and Official Development Assistance (ODA). The country has limited food and cash crop production. As a result, rice and wheat flour imports account for the overwhelming share of domestic food availability. Although availability and stability of food items on the markets is usually adequate, shortages do occur.

The study offers a profile of three selected market chains that account for the greatest share of poor household's food expenditures. It provides the Ministry of Planning and Development and WFP with an analysis of how food markets function in the country and their influence on household market access and food security prospects.

How was the assessment done?

The study considered secondary data, with key sources being the International Monetary Fund, the African Development Bank, the World Bank, and the CFSVA by WFP. The National Institute for Statistics, the Trade Department and the National Observatory for Poverty provided additional data, analysis and insights. Following this review, it was decided to focus primary data collection on three market chains: cereals, banana and fish and in particular three basic commodities of greatest importance to poor household food consumption habits: namely rice, banana *prata* and flying fish: all four rice importers in the country were interviewed. The Department for Fishery provided data about the population of fishermen and traders (*palayês*).

Market structures of imported rice, banana *prata* and flying fish

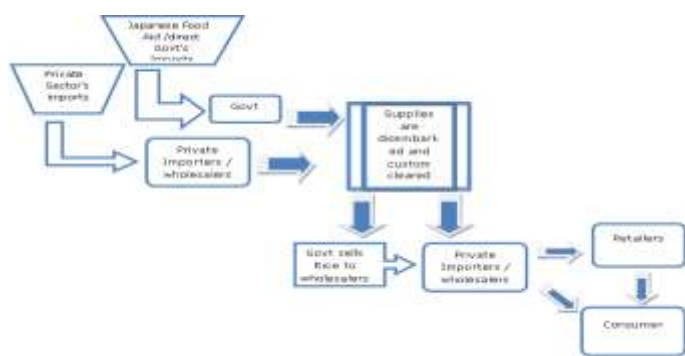
Imported rice accounts for 6% of the consumer price index and absorbs 14% of poor people expenditure. Fish as a whole contributes to 13% of the CPI and provides 80% of animal proteins consumed in the country. Flying fish is the most consumed by poor households. Banana accounts for 4% of the CPI, and might be considered a potential partial, internally produced, substitute for imported rice.

Transportation opportunities play an important role in the structure of the market chains as rural areas are poorly connected to the main road network. The situation worsens during the annual rainy season.

The government dominates the imported rice value chain. The main actor supplying rice in the internal market is the Government, through regular donations of rice from Japan that are resold to domestic wholesalers. Up to two-thirds of the rice consumed in the market is imported through this mechanism.

In order to set the selling price, the Government considers the C.I.F. price of the good and adds all custom clearance taxes and fees that any private importer has to pay. The agreement between Japan and the government sets the lower bound of the total sale value at two thirds of the F.O.B. value. Private actors are allowed to charge their own profit margin at different stages of the chain. Among private actors there are three companies that operate as importers of rice of the quality conventionally consumed in the country. This arrangement allows the government to ensure availability of rice at a relatively low price.

Figure 1: rice market chain

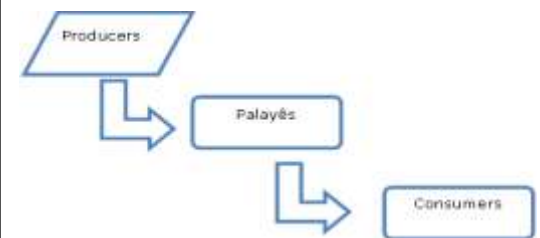


Private actors consider that importing rice to Sao Tomé e Príncipe is a risky business due to low profit margins and the government's ability to flood the market. Other studies on rice in West Africa have shown that access to finance is a constraint for importers, creating a barrier to entry. The small size of the market in Sao Tome e Principe might exacerbate the issue.

The banana market chain: scattered, informal and hard to track
Banana holds an important role both for the consumption and the supply side of the market: it is a widely consumed staple food, own production and sales support smallholder farmers' livelihoods. There are some 150 communities (around 8,000 families) that produce *banana prata*. Production takes place in association with other crops such as cocoa, cassava, plantain and yam.

The banana chain of bananas consists of two main exchanges: producers bring the product from rural areas to the market and sell it to *palayês* (traders) who in turn sell to consumers. Since growing bananas does not require any particular skill or care, anybody can produce bananas in her/his own yard and sell it in the market or on the streets. Prices are low and supply seems sufficient for the actual structure, behaviour and conduct of the market. Nevertheless, it is an activity that remains at the subsistence level.

Figure 2: banana market chain



Fishery: an artisanal subsistence activity.

Fish provides a crucial supply of animal protein to the local consumption. In addition it is an important income-generating activity for 29 communities that mainly live out of fishery.

Fishermen disembark fish practically in all of the 29 different beaches close to where communities of fisher folk dwell. Around 80% of the catch is then brought to the market in the capital city by *palayês*. Only a small share of the total catch is preserved or processed.

The lack of cold chain, of storage facilities and of any processing affects the price and the quality of the product. In the case of bananas as well as for fish, wholesalers are virtually absent.

Figure 3: flying fish market chain



Instability in prices and households market access

Even though the market survey revealed that basic foodstuffs are commonly available in the markets, shortages do occur. Furthermore, the country suffers from low integration in the regional and global markets due to its insular nature.

It is also worthwhile mentioning that while aggregated data on imports level remain stable in general terms, monthly variation of prices, caused by seasonal shortfalls, affect household's real purchasing power. As five out of the seven products that absorb more of poor households' expenditure are imported commodities, poor households are therefore prone to shocks caused by international food prices' fluctuation.

Figure 4: Current prices compared with last year prices



Regarding the rice market, the Government requests wholesalers provide information on stock levels for a variety of basic food products, including rice. The purpose is to forecast the possible shortfall in the market, and if it is the case, intervene

with rice imports. The Government uses Japanese in-kind rice donations to stabilise the availability and price of rice in the market. It seems clear that the Government uses rice as a strategic lever to achieve food security. However, as soon as Japanese rice supplies are finished, the drop in supply immediately causes a price increase. Banana might be considered a potential, partial and internally produced substitute for rice consumption. However, as the prices of banana and rice covariate, it suggests that the two commodities are imperfect substitutes.

In the banana and fish market chains, the seasonality of production, the impossibility of storing the product, and the lack of any processing, make prices fluctuate year long with production trends. This reduces profit margins and compressing the incentives to increase production. Stocks of preserved fish are too small to stabilize supply or prices. The market does not provide fishermen the incentives or the financial resources to invest in order to increase the catch and stabilize the market. Fish is available all at once and for the whole population of fishermen, causing a fall in the price, which in turn erodes fisher folk income.

Compared to 2010, at least one third of rice sellers, flying fish dealers and banana traders perceive a reduction in daily sales. This might suggest that this is due to a reduction of households' purchasing power and financial access to the market in so far as the households' demand for more credit is not matched by traders' capacity or willingness to grant credit.

Interviewed traders consider the lack of own capital as the main constraint to develop their business. Banana and fish traders show interest for a cash and voucher programme while those of the rice chain are less enthusiastic. Their participation in such a programme could contribute to a stabilisation of demand, granting traders a more stable income and offering prospects for the expansion of their business. In the case of rice, the role played by the Government might be perceived as a factor limiting trader capacity to respond to increased demand.

Conclusions and recommendations

Overall, financial capacity is the main factor affecting the economic access and food security of vulnerable groups. Supply of the analysed commodities is in general enough, although not stable. This leads to sudden, (though predictable), price variations. The population's capacity to generate more income or to spare larger shares of their income for food consumption to cope with and respond to such phenomena is limited. As a result shares of population are under strain because they are cut off the markets.

Interventions should aim to stabilize supply and prices. There is a need to design policies that give incentives to all actors in the commodity chains. Direct intervention that may distort prices and consumers' preferences should be avoided. Government policies should aim at regulation, as its role as a market actor is problematic. Such policies should be applied with targeted subsidies or cash transfers to specific groups of population who are food insecure. Such policies would improve Government's efficiency and effectiveness in supporting food security.

RECOMMENDATIONS

For the imported rice market:

Implement targeted policies to increase vulnerable groups' purchasing power (such as cash transfers), jointly with a (ii) concerted management of Japanese food aid sales with the different parties that might be affected by the decision on price level and supply (traders associations, local producers of substitute goods, consumers etc.) and (iii) considering a concerted management of staple food imports with the private sector (if economies of scale make large imports more profitable) might ease the chain dynamics, and avoid periodic shortages and episodes of price volatility.

For the banana prata market chain:

An intervention that supports smallholder farmers' access to input markets and processing opportunities might have manifold results: (i) the promotion of marketing opportunities to smallholders, (ii) the increase of food flows and availability, as well as (iii) the increase of producers' financial access to markets.

For the flying fish market chain:

As for the case of banana, an intervention that provides support to fishermen, for example guaranteeing stable demand for processed fish, might help consolidate the capacity of the sector to provide product with quality at a stable rate. It would also result in an important contribution to the stabilisation of supply in the fish chain and ultimately to the income of those communities depending on fishery.

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