Toward a Regional Framework for Effective Policy Responses to the Emerging Food Crisis in Southern Africa

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(DRAFT for comments October 3, 2005)

Introduction

Starting in January 2004, the Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN) and Michigan State University initiated a joint research and policy outreach activity on regional maize marketing and trade in the Southern Africa region. The objectives of this activity were to work closely with Ministries of Agriculture in the region to identify policy options for promoting small farmer welfare and national food security through improved maize marketing and trade in the region. Focus countries during this initial phase of policy analysis and outreach are Malawi, Mozambique, South Africa, and Zambia.

An interim regional workshop was held in Pretoria South Africa on June 21-22, 2005 involving government officials, private sector stakeholders, and policy analysts from the region.[1] In light of the emerging food crisis associated with another poor maize harvest in most of the region, the following policy issues were identified as having a critical influence on the region's ability to address its food security challenges:

- The need for greater investments in basic publicly-provided goods to support small farmers' agricultural productivity and access to markets;
- The need for policies that would ensure better coordination between the large-scale "formal" and small-scale "informal" marketing channels in meeting the market access and food security needs of small producers and consumers; and
- The need to promote clarity and transparency in governments' involvement in the distribution, storage, and trade of maize, so as to reduce the uncertainty facing private traders who might otherwise be able to at least partially redress imbalances in countries' production and consumption requirements through regional trade;

The remainder of this policy synthesis describes the emerging food situation in the region for the 2005/06 season, on-going policy processes occurring in selected countries of the region (building upon discussions at the Pretoria regional workshop) and major policy challenges to enable the region to effectively respond to the food situation during the 2005/06 season.

The Emerging Food Situation in 2005/06

Entering the 2005/06 marketing year, revised assessments indicate that all countries in Southern Africa except South Africa have cereal deficits, ranging from 100,000 tonnes in Zambia to 1.62 million tonnes in Zimbabwe (SADC, 2005). Roughly 9.71 million people in Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe are estimated to be in need of food assistance before the 2006 harvest, requiring roughly 730,000 mt of food aid (SADC, 2005). This season is an illustration of the apparently ever more frequent and severe food crises affecting the region. Governments in the region increasingly recognize the importance of harmonizing regional food trade policies and investments to respond better to transitory food crises and promote small farmer income growth and food security over the longer run. Most analyses now find support for the position that regional trade is becoming an important component of national food security for many countries in the region. However, the objective of maize "trade without borders" has been difficult

[1] The workshop was funded by the Rockefeller Foundation, DFID, and the World Bank/Rural Development Division. Funding for much of the information and analysis presented at the workshop was provided by USAID/Mozambique and USAID/Zambia, and from USAID/EGAT/AFR through the Food Security Cooperative Agreement, as well as by the Rockefeller Foundation.

to achieve, and recently a number of countries have taken steps to inhibit private maize trade through export bans, import tariffs, and state monopolies on trade.

In recognition of this problem, FANRPAN convened its conference in Pretoria, South Africa on June 21-22, 2005 to explore options for addressing these issues. A number of follow-up processes have been initiated at country level, involving the Ministries of Agriculture and Finance in Mozambique and Zambia, the Zambia National Farmers Union, the Agricultural Consultative Forum in Zambia, FANRPAN, and other stakeholders. As an outgrowth of these policy processes, decisions have been made in both countries that will promote smallholder and consumer welfare.

Two decisions stand out in ***Zambia***, First, local government taxes on maize movement across district boundaries were reduced substantially and harmonized to a uniform level (now less than $0.05 per bag of maize traded) in June 2005. The Zambian National Farmers Union and local policy analysts in the Ministry of Agriculture played an instrumental role in demonstrating the problems that the taxes imposed on small farmers, consumers, and traders. Second, the Zambian government abolished the import duty on maize from non-COMESA countries in September 2005. Since the only country in the region with substantial maize surpluses is South Africa, which is not a COMESA country, the import duty would have put upward pressure on Zambian prices. The elimination of the maize import duty is likely to have two major benefits.

First, it provides a clearer signal to the private sector to import maize. Prior to the announcement, uncertainty over if and when the import tax would be lifted was causing private importers to wait, in possible anticipation of the tax's removal; the resulting uncertainty was raising the likelihood that imports to fill Zambia's maize deficit would arrive too late to avoid price spikes in local markets. Indeed, maize prices have increased dramatically in recent months.

A second benefit of the elimination of the import tax is that it should significantly improve the country's ability to respond to the food crisis by allowing maize grain to be available commercially in Lusaka at roughly $242-263 per tonne, as opposed to $277-300 per tonne with the 15% import duty. While this will be a major help, it is clearly not a sufficient condition for meeting the current challenges.

In **Mozambique**, policy makers recently exempted domestically-produced maize grain from the 17% value added tax (VAT) when it is sold to the domestic processing industry, and also simplified licensing and border procedures for food imports. The full implications of the VAT change are not yet clear, because large millers source the vast majority of their grain from South Africa for reasons beyond price, especially due to issues of quality and reliability of supply. Yet this exemption is clearly one important step in allowing domestic grain to compete with imported grain in supplying the growing domestic milling industry. Because it is technically illegal to charge VAT on imported grain if it is not charged on domestic grain, some traders have now petitioned the government for removal of VAT on imported grain, even if it is meant to be sold as grain into wholesale and retail markets. This final change, if it were to occur, could have positive effects on consumers by improving supply and reducing prices of grain during the hungry season (Tschirley et al, 2005). Other than the VAT, Mozambique has maintained its open borders policy on maize trade, which has been shown to have positive effects on both farmers and consumers. Continuing to simplify licensing and border procedures, especially for small traders, is important to fully realize the benefits of this open trade policy.

Major Policy Challenges for the Region

Raising the Productivity of the Small Farm

Even in a reasonably good rainfall season, at least 50 percent of small farm households in the region are buyers of maize or maize meal, and of course this percentage is higher in a bad year.

The major long-run challenge is to raise the productivity of the smallholder so that rural households will be able either to grow enough food or purchase it through markets, rather than depending on food aid. Small farm productivity growth will require greater public investment in crop science (especially for semi-arid farming conditions characterizing most of the region), extension systems, physical infrastructure, health care, education, communications, and farm finance. This is a tall order in the face of highly constrained national budgets. Greater donor funding will be critical, but is not likely to emerge unless local governments re-allocate a greater portion of their own budgets to these investments. Raising governments' commitment to invest in African agriculture is already an important priority on NEPAD's agenda. Because this brief note focuses primarily on actions to improve the performance of grain markets and trade, we simply note here that productivity growth in smallholder agriculture is a critical component of a more food secure Southern Africa region.

Improving Competition and Timely Response in Local and Regional Markets

The current food crisis in Southern Africa has led to an urgent call for food aid. But even during periods of national food shortfalls, most rural and urban poor rely more on markets than on emergency distribution to secure their residual food needs. Well designed targeted food assistance programs will be crucial to maintaining food security during the upcoming 6-8 months. Yet the cost and logistical difficulties of such programs can become prohibitive if markets do not move food efficiently to consumers with effective demand. Thus a comprehensive food security strategy in southern Africa requires that maize grain and meal, and other food staples such as cassava or rice, are accessible at affordable prices through the market.

The future of the small-scale farming sector's ability to prosper from maize production and marketing will depend on strengthening the performance of the marketing system serving small-scale farmers, and on integrating the informal marketing system with the more developed "formal" marketing channels.

Informal marketing and small-scale maize milling sectors play important roles in the region. Informal marketing channels in most of Southern Africa provide large shares of the maize meal consumed in rural and urban areas during the post-harvest months when supplies from domestic production are available. These informal channels rely mainly on small-scale, and relatively low-cost hammer mills (and in some areas, hand pounding) to grind maize into maize meal. As long as grain is available in local markets, a large proportion of urban consumers (and rural maize-buying farm households) buy grain from local vendors and pay a fee to mill the grain into meal (*mugayiwa*) at a local small mill. Mugaiwa is usually considerably cheaper than the refined packaged maize meals because of lower milling costs and fewer services (e.g., no packaging). Mugaiwa also has a higher nutritional content than refined packaged meal. Urban consumer surveys in Zambia and Mozambique show that most of the urban poor rely primarily on informal traders and small millers for their maize meal (Mwiinga et al., 2003; Nijhoff et al, 2003; Tschirley et all, 2005). Mwiinga et al (2003) found than consumers eating mugaiwa could reduce their expenditures on maize by 20% in urban Zambia compared to those purchasing the same amount of packaged roller or breakfast meal.

However, during years of local production shortfalls, grain supplies in local markets dwindle later in the season, making it difficult for consumers to source grain for *mugaiwa*. Industrial mills linked to the formal marketing systems have traditionally been able to import maize, or to ensure preferential access to government-imported maize, resulting in a temporary increase in market share for industrial mealie meal. In Zambia, this occurred in 2001/02, following the importation of some 150,000 MT of maize facilitated by Government, channeled exclusively to industrial mills. Some of these mills, and the supermarkets that carry their meal, are affiliated with the large grain milling and retailing firms in South Africa and the United States. Low-income consumers were

forced to pay a higher price for maize meal than would have been the case if imported grain were released onto local informal markets through small traders.

These unnecessary price rises could especially jeopardize poor urban and rural consumers' food security. Avoiding this scenario in 2005/06 will require at least two steps. First, licensing and border procedures need to be simplified to encourage participation by small traders in regional trade; these traders are the most likely to sell grain in local markets and thus will have the biggest impact on the affordability of maize for poor consumers. Second, if governments choose to arrange imports themselves, they need to release significant shares of these imports onto public markets rather than channeling them exclusively to large commercial millers. Such a step will enable consumers to continue accessing less expensive mugaiwa if they so choose, thus reducing their staple food bill and improving their food security.

Reduce Policy-Related Market Uncertainty

In countries where government involvement in the staple food market is seen as part of a transitional phase towards full market liberalization (e.g. Zambia and Malawi), predictable and transparent rules governing state involvement would reduce the risks facing private traders, would facilitate greater coordination between private and public decisions, and would thus result in more stable and predictable staple food prices. Government interventions need to be consistent with the resources that are available. Overstating government import intentions has in the past led the private sector to conclude that it had no role to play in importation, which contributed to price rises above import parity levels in Malawi in 2001/02 and Zambia in 1999/00 (Rubey, 2004; Nijhoff et al, 2003).

For example, the Malawi government in late 2001 imported maize from South Africa to distribute at prices well below market levels, to protect poor rural consumers. However, the government imports arrived late and were not sufficient to meet demand. As a result, ADMARC depots began to experience stock-outs, and prices soared. Yet the private trade had not imported because they expected to be unable to compete against the low ADMARC official maize selling price. When it became clear that ADMARC's supplies were insufficient to last the full season, private traders scrambled to import, but for several months much of rural Malawi experienced grain shortages and prices as high as $450 per ton (Rubey, 2004; Tschirley et al., 2004). The lesson from this experience is that well-intentioned but poorly implemented government actions can exacerbate food price instability rather than reduce it.

This interaction between subsidized government intervention in the market, or the threat of it, leading to private sector inaction, is one of the greatest problems plaguing the current policy environment of liberalized marketing systems. Given current prices in South Africa, it would be possible for a private trader to import maize into Zambia at roughly $245-260 (without an import tariff). In principle, a trader might make arrangements to import once local prices near these levels. However, if there is any risk that a government agency might import and sell the grain below full cost (e.g., at $170 per ton to local millers), private traders are unlikely to risk their capital to import, because their landed cost of $225 or $245 could not compete against the supplier selling at $170. In this way, the uncertainty regarding future government actions can impede the private sector from undertaking socially important tasks that it could do quite easily if government policy were more predictable.

Make it Easier for Small-Scale Traders to Participate in Grain Trade

Formal trade regulations, even when they do not explicitly impede trade, can make it difficult for small traders to participate in regional trade. Yet when regulations are minimal, such trade can move very large volumes of grain very quickly, and can have major impacts on markets, as

illustrated by the regular maize trade between northern Mozambique and Malawi. Some countries have simplified trade regimes for small traders, but these often accommodate only the very smallest traders who, due to their small size, face very high unit costs of importing. Revising these simplified trade regimes for small traders and expanding them to accommodate more and somewhat larger traders could have a measurable effect on the availability of grain in markets, because these traders are the most likely to sell their grain into the informal marketing system where it will be available at low cost to consumers.

Coordinating Markets and Food Relief to Improve the Response to Food Crises

In considering how markets can be used as one of the tools of relief, the following are important considerations:

(1) The bulk of food moved in normal, as well as in a crisis year in most countries is moved by the private sector.
(2) The fundamental challenge is to conceive and operate emergency food and income assistance programs for crisis years that are effective, but that also strengthen the role and reduce costs for the way private markets functions in both normal and crisis years.
(3) The hunger problem includes both emergency relief needs and problems of chronic malnutrition. The latter may kill many more children every year than the large, visible crises, but the chronic problems receive less media attention. A key challenge is to devise ways to deal with the shorter-term crises that also contribute to alleviating chronic malnutrition. This cannot be done without incorporating the private sector as a key part of the strategy, because a well-functioning, low-cost food marketing system is essential for a economically sustainable assault on chronic food insecurity.

A market-friendly strategy to deal with crisis would include the following elements:

- Actions to reduce uncertainty and facilitate private-sector in-country arbitrage, as well as regional and international imports;
- Making information widely available to all actors (including the private sector and farmers, who control most of the inventories in the system) on the nature of the problem, current market conditions, and production and import outlook. Here is where prior investments in market information systems and early warning systems have a high payoffs;
- clear statements by government of its willingness to work in partnership with the private sector to facilitate private-sector imports and trade flows internally within the country (e.g., removal of trade barriers, facilitation of import procedures, tax exonerations, etc). This must be done in a way that ensures competition within the private sector rather than dealing with just a few large importers, who could monopolize the situation.
- This approach does not imply that the government will be impassive. The government may engage in subsidized sales or limited free distributions of food in some markets, but needs to be transparent about the conditions under which these actions will be taken and to the extent possible, identification of where they will take place (intentions about where, when, and how much food aid government intends to distribute, then updates on actual progress and changes to the plans. The big problem is to avoid swamping the whole system with relief flows that are uncoordinated with what the private sector is doing, creating great uncertainty for the private sector and undermining its incentives to invest in longer-term food system development.
- Marketing extension, both information about prices and volumes, and basic analysis that is widely "extended," may be as important as any research that is done. A major part of the "comfort level" among public decision makers about the role that the private sectors plays comes about because groups like the market information systems in Mozambique are steady partners of the private sector in bringing transparent information and analysis to the public policy debate.

Concluding Comments

We suggest that emergency operations follow a three-step process. First, they should ***start by focusing on markets***. Agencies and government should determine what markets are capable of in terms of the volume of additional grain they can bring to the country through commercial imports (both formal and informal), geographical areas they can cover, and proportions of the population in these areas that will have sufficient purchasing power, at expected price levels, to ensure a minimally adequate diet. Next, governments and emergency planners should take concrete measures to ***facilitate market response***. Food markets in developing countries suffer from high unit costs for domestic marketing, constrained access to foreign exchange and credit to finance food imports, and frequent policy constraints that further limit import response. Combined, these factors can, in the short-run during a crisis, lead to skyrocketing food prices. This is especially true when the crisis affects an entire region rather than a country, as in a widespread drought in Southern Africa.

Yet governments can, with selected assistance from donors, put in place temporary and longer-term measures which may dramatically increase the ability of markets to respond to these crises. Eliminating policy barriers to trade and ensuring more transparent statements and actions by government regarding food imports should always be the first step; Mozambique has shown that this open and clear policy stance greatly facilitates trade's contribution to stable prices and food security. Additional balance of payments support from donors or a foreign exchange credit facility for use in importing food staples may be called for if import needs threaten macroeconomic stability. Additional measures could include direct cash transfers to affected households where markets could work but purchasing power may be limited, cash for work if done early enough that households' health is not already compromised, and even temporary transport subsidies on specific routes. Direct cash transfers and cash for work projects should be well publicized, including timing, location, and total cash to be disbursed, to ensure that traders realize ahead of time that there will be increased purchasing power in the area.

Finally, planners should ***turn to food aid*** if markets and market-facilitating measures are expected to be insufficient to meet immediate food needs and protect vulnerable households from excessive indebtedness or asset depletion. These food aid programs should be designed to cover only those geographical areas and populations that markets are not expected to cover. Vulnerability assessments to assist in targeting, as was done in Southern Africa in 2002/03, should be an important part of this response. In addition, because even the best designed emergency programs can have important effects on markets, governments and relief agencies need aggressively to make information about the food aid program widely and publicly available. If traders fear that food aid quantities will be too large or poorly targeted, they will reduce the amount of food they import, further increasing the burden on the food aid program.

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