

How Can Markets Respond Better to the 2005/06 Food Crisis: Evidence from Zambia

Food Security Research Project – Zambia
& Market Access, Trade, and Enabling Policies Program

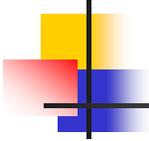
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USAID, RRB, Washington, DC



MICHIGAN STATE
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Increasing frequency and severity of food crises: Why?

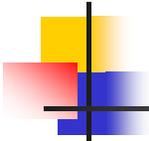
1. Substantial \$\$\$ is being spent on poverty alleviation
2. Tragedy is that the \$\$\$ is not being well utilized
3. Government policies (and donors that provide untied budget support) not using their resources to promote farm productivity growth
4. A new relationship between donors and governments is necessary to effectively tackle poverty



How can markets reduce the burden of food assistance:

- Requires short run and long run actions:
 - keep grain supplied to informal traders/millers, esp. late in season
 - Streamline/remove barriers to regional trade
 - Government: make transparent your intentions in markets
 - Donors: reduce “untied” budget support – re-route to dedicated investment in productivity growth

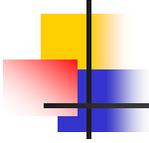
3



How can markets reduce the burden of food assistance:

- In short run:
 - keep grain supplied to informal traders/millers, esp. late in season
 - Streamline/remove barriers to regional trade
 - Develop efficient and timely phytosanitary testing procedures
 - Government: make transparent your intentions in markets

4

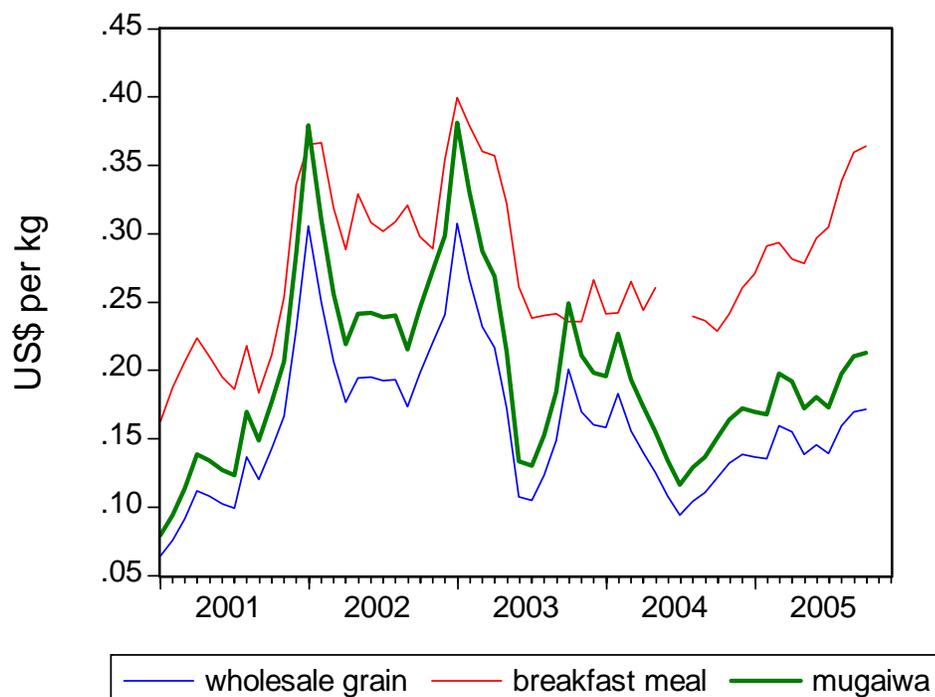
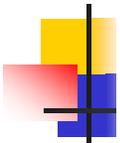


How can markets reduce the burden of food assistance:

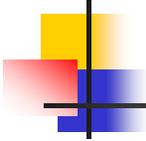
- In longer run:
 - Government: sell off or provide long-term leases of marketing board assets
 - Donors: reduce “untied” budget support – re-route to dedicated investment in productivity growth

5

Commercial meal vs. mugaiwa prices, Lusaka



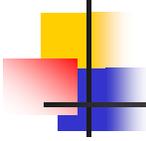
6



Importance of the informal trading systems

- Informal markets thinly traded late in season as local supplies exhausted
 - Need to ensure that supplies are released on informal markets – donors/NGOS?
- Most poor people need the informal system to ensure access to food.

7



Trading system to serve smallholders is hobbled by:

- Uncertainty policy environment
 - Export bans
 - Waiving import tariff rates
 - Uncertainty about government decisions on when and how much to import
 - Market boards subsidizing sale of their supplies to selected millers – undermines informal millers
 - Import licenses issues selectively
 - New phytosanitary regulations

8

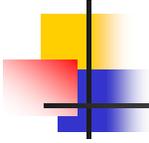
Remove the barriers to informal regional trade

- Offload trucks, carry one bag over the border, rebag onto truck
 - Just raises prices for consumers and lowers prices for farmers
 - Exacerbates food insecurity in high-price years like this one

9



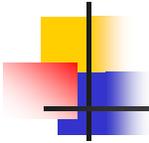
10



Two Main Options:

1. **government intervention to stabilize prices:**
 - don't let prices go above \$ per ton;
 - need strategic reserve of some type, perhaps use risk management tools available through SAFEX.
 - Use of variable import duties, export bans, etc.
 - This is the approach being pursued by Zam, Malawi, Zim
2. **rely on regional and international trade to keep prices between import and export parity:**
 - complement with food assistance when/where necessary
 - very specific and circumscribed types of government involvement.

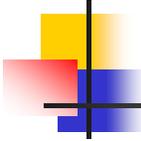
11



IF Governments choose to remain directly in grain marketing

- Operate under transparent rules governing when/how government enters the markets
- Clear rules for:
 - buying price
 - selling price
 - when
 - where
 - sell to whom
 - budget available

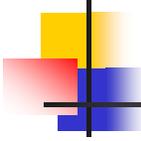
12



Strategies to Incorporate into This Year's Response to the Food Crisis:

1. keep grain flowing in informal public markets –especially crucial in years of high prices like this one!
2. WFP -- consider selling some of its supplies to small traders/millers
3. streamline customs/border clearing procedures – remove uncertainty over level of import duties
4. reassess need to issue import licenses – disadvantages the consumer
5. make it easier to identify how to source non-GM maize from South Africa, and at what price.
6. Waive the 8 new pathogens identified – maize is being held up at the border
7. reconsider wisdom of untied budget support to treasuries. Why not re-route at least some of this to specific dedicated investments in agricultural productivity growth?
8. Market monitoring and crop forecasting systems
9. improved vulnerability assessment tools

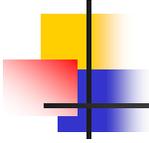
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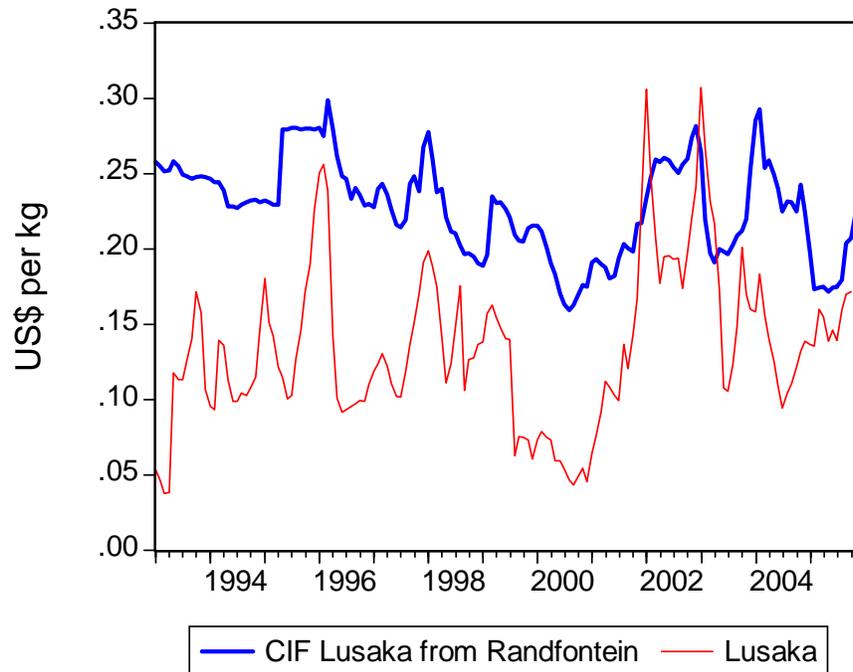
Smallholders need greater support:

- Productivity growth
 - crop science
 - extension systems
 - groups marketing, input procurement
 - education
 - investment in transport sector, road/rail/port development
- All of these require a supportive public sector – governance issues!

14



Maize wholesale price, Lusaka vs. import price from South Africa



Maize wholesale prices, Lusaka vs. import price from South Africa

