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

November 17, 2005
USAID, RRB, Washington, DC

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

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
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
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.

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
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
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.

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