A report on a workshop on

"Partnerships between government and the private sector to overcome food shortages in Eastern and Southern Africa"

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"Partnerships between government and the private sector to overcome food shortages in Eastern and Southern Africa"

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Acronyms

ADMARC	Agricultural Development and Marketing Corporation
COMESA	Common Market for Eastern and Southern Africa
FAO	Food and Agriculture Organization of the United Nations
FRA	Food Reserve Agency
GMO	Genetically Modified Organism
ICM	Mozambican Cereal Institute
IRC	International Rescue Committee
NGOs	Non-governmental organizations
RATES	Regional Agriculture Trade Expansion Support
SADC	Southern Africa Development Community
SAFEX	South African Futures Exchange
SPS	Sanitary and Phytosanitary Standards
VAM	Vulnerability Assessment and Mapping (Unit)
VAT	Value Added Tax
WFP	World Food Programme
WR	Warehouse receipts
ZACA	Zambian Agricultural Commodity Agency

Executive summary

Eastern and Southern African countries are largely dependent on rain-fed agriculture. Inevitably the rains do occasionally fail, with consequent production shortfalls necessitating imports, both for food aid and for commercial purposes. This workshop aimed to discuss how governments, the private sector and food aid agencies could work together to minimise the disruption caused and to ensure that in future all could work together to ensure that no one in the region goes hungry.

The workshop noted that in times of shortage large proportions of populations in the sub-region were still able to make commercial purchases. While the private sector should be in a position to supply that demand through imports from within and outside the sub-region, government, and to a lesser extent, food aid policies often made it difficult for the private sector to function. The workshop was provided with several examples of where policies relating to import and export controls; import duties; price controls on milled and unmilled maize; uncertainty over government imports; and poor targeting of food aid had increased risks faced by the private sector and, consequently, made it reluctant to import. For some governments this became a self-fulfilling prophecy: noting the reluctance of the private sector to import, they became convinced that food supply could not be left to the private sector in drought years.

The participants of the workshop, representing governments, marketing boards, the private sector, aid agencies and international organizations, emphasised the need for improved communication between government and private sector in order to overcome this mutual suspicion and develop an understanding of the different points of view. They felt that countries should establish a national-level forum, such as a Grains Council, in order to promote dialogue. There was also a need for greater dialogue on a regional basis. Participants recommended the private sector to consider developing a regional grains association.

The workshop noted the importance of governments developing consistent grain marketing policies and avoiding *ad hoc* interventions. Problems caused by inconsistent approaches to food aid were also noted. A coordinated sub-regional approach to droughts, embracing both policy and logistics issues, was also recommended. Participants also noted that poor policies can also have a negative impact in times of surplus, thereby also jeopardising food security. Needless export bans reduce prices to farmers and lower the incentive for them to plant in subsequent seasons.

Several participants expressed concern about the impact of droughts on small-scale traders and millers. It was felt that ways of involving them in the handling and processing of commercial imports should be explored.

Participants noted with interest several new approaches that could potentially play an important role in overcoming food shortages. Traders already trade futures on the South African Futures Exchange (SAFEX) but Option trading may be a further possibility, as has been tried by the Government of Malawi in partnership with the World Bank. The use of Warehouse Receipts and Inventory Credit by large farmers and traders in Zambia was also noted, as was a recent proposal by WFP to take out weather insurance in Ethiopia.

The poor quality of crop forecasting in many countries was noted and considered to be a significant problem facing the private sector, which also felt that there was a need for improved information on government stocks, and on trade and SPS regulations. Considerable concern was expressed about the poor quality of road and rail infrastructure in the sub-region and about delays caused at border crossings and at internal road blocks.

Finally, participants were very conscious of the fact that many of the issues discussed at this workshop had been discussed on many other occasions in similar forums, with limited results. Follow-up should be at a high level, possibly involving a meeting of ministers of agriculture. National policy advisory missions were also suggested. Policy reform requires ongoing dialogue and just one meeting is not enough.

1 Background and purpose of workshop

Introduction

For the private sector, sub-regional food shortages present both opportunities and threats. There may be the opportunity to supply local and regional food aid tenders and to play a role in food aid distribution. On the other hand, the threats come from the tendency of governments, donors and other agencies to ignore the private sector, in the haste to move food to those most in need and in the belief that the private sector is unable to handle large-scale commercial imports. Indeed, the political and humanitarian response to extreme food shortages often makes it almost impossible for the private sector to carry out its normal trading functions, despite the importance of such functions in addressing overall food needs and facilitating economic recovery. Moreover, the private sector is rarely involved in planning discussions at the time of drought, nor are its needs and capacities considered systematically in response planning.

Examples of political responses to food shortages witnessed in the Southern African region and elsewhere during past food shortages have included:

- **Controls which limit incentives for commercial imports.** In times of national food shortage, commercial food supplies can continue to be imported by the private sector. However, policies adopted have tended to act as a disincentive for grain traders to import, so exacerbating shortages and placing greater reliance on food aid supplies. For example, price controls established in the belief that this is the way to control "exploitation" have often made it impossible for private traders to profitably import grains. Just the threat of price controls has been damaging as traders have not imported when they believed that price controls would be introduced before they could sell their stocks.

- **Price controls on milled products.** Food shortages lead to increased prices. Governments have tried to cap those prices. But such decisions have usually been taken without reference to the costs of millers. Millers are prevented from increasing their prices for milled products. Thus private mills have been faced with an unenviable decision: either continue milling and eventually go bankrupt, or cease milling, reduce the available food supply and, probably, be accused of economic sabotage.

- **Border controls.** A common measure in the sub-Region has been to ban exports, even if farmers had a good market a few kilometres away in a neighbouring country but would experience excessive marketing costs in supplying markets in their own country. Several governments in the region have in the past preferred to criminalise such arbitrage activities, even if it rarely proves possible to effectively police borders.

- **Problems associated with general distribution of food aid.** Without doubt, during times of drought many in southern Africa go short of food. Some have lacked the resources to buy food at increasing prices and have faced the danger of starvation. However, many other people in the region, particularly wage earners in urban areas, were able to buy their food requirements, albeit at higher prices. Past experience suggests that difficulties in targeting food aid and poor government policy have led to general distributions which included those who were able to pay. This not only diverted food away from the really needy but also jeopardised the livelihoods of the traders and millers who were supplying urban areas and local farmers who experienced low prices in subsequent seasons due to excess food supplies imported by governments, donors or aid agencies and eventually sold on the local markets.

Objectives of the workshop

This workshop for Southern Africa and some countries of Eastern Africa was held in order to discuss the role of the private sector in overcoming food shortages. It brought together representatives of grain traders, millers, commodity exchanges, farmers' unions, aid agencies, donors, state marketing agencies and policymakers in order to arrive at a common understanding of the role of the private sector and of that sector's requirements if it is to effectively market food in difficult times. In this respect the meeting was structured to address, inter alia, the following issues:

- Delineation of respective roles of government, donors and the private sector and the modalities for cooperation.
- The development of an information system so that all actors are fully aware of quantities being imported from outside the region, by both donors and the private sector.
- Opportunities for local and sub-regional procurement of food aid and how the private sector could be involved.
- How best to protect the role of the private sector in the marketing and importing of commercial food supplies in times of food shortage.
- The role of the private sector based in the sub-region in importing and moving food-aid supplies into the sub-region.
- The role the private sector could play in distributing food aid on behalf of donors, both as food aid and commercially.
- Steps needed to protect local small-scale mills, including distributing whole maize rather than milled maize to deficit areas with an adequate supply of mills.

2 Summary of presentations and discussions

Delegates were welcomed by the organizers of the event, Prof Johann Kirsten (University of Pretoria) and Mr Andrew Shepherd (FAO). The meeting was officially opened by Mr George Mburathi, FAO Representative in South Africa (see Annex 3).

After introduction of the background and purpose of the workshop by Mr Shepherd, a series of keynote presentations was presented to initiate the debate and discussions. The first paper was presented by Dr Tobias Takavarasha and provided a regional overview on the role of the private sector in addressing food emergencies.

2.1 The role of the private sector in addressing food mergencies and vulnerabilities in southern Africa. Experiences of recent years - *Dr Tobias Takavarasha (Independent consultant, Zimbabwe)*

This presentation focused on the policies and constraints impacting on the role of the private sector in addressing food shortages. The presentation was based on a summary of available literature on Malawi, Zambia and Zimbabwe. This was against the background of increasing food insecurity in southern Africa due to drought, adverse weather and economic factors that have hit these countries in recent years. It was reported that the private sector had played a very limited role in importing commercial as well as relief supplies of cereals in deficit years, as compared with government agencies, donors and NGOs who have carried out most of the import programmes. Trading in grain across borders is mainly constrained by lack of market information, government restrictions on imports and export of cereals, poor infrastructure, cumbersome customs procedures and financial problems.

There were a number of disincentives that prevented the full participation of private grain traders in the region. Among these were policy uncertainties, stringent import permit requirements and frequent export bans, even where contracts had been signed. This was compounded by unfavourable domestic policies and import duties coupled with high nominal and real interest rates and inappropriate phyto-sanitary controls. Unpredictable policies and late import decisions and unplanned banning of exports resulted in price distortions and reduced export volumes. Import duties and high transport costs led to high marketing costs and crowding out of private trade. Controlled pricing made regional imports uncompetitive and protected inefficient production. Lack of market information adversely affected reserve stockholding operations.

It was noted that the current situation in Malawi was characterized by direct government intervention through ADMARC, a state agency. While maize imports in Malawi were unrestricted, the private sector faced difficulty in competing with government. In Zambia the government also maintained a presence in the market through influencing operations of the Strategic Food Reserve held by the Food Reserve Agency. Imports have been subject to tariffs. In the case of Zimbabwe the government has a trade monopoly in maize and wheat and all imports and exports have been done by the Grain Marketing Board, at highly subsidized prices. Recent experiences of private sector grain importation in Malawi were late tenders by Government leading to rent seeking and administrative bottlenecks. In Zambia the private sector made no import arrangements in 2005 during a three-month debate on whether to lift a 15 percent import duty on maize. The situation in Zimbabwe was that in September 2005 three of the largest millers failed to raise enough foreign currency to pay for a consignment of imported wheat. These examples served to show the numerous practical obstacles to private sector involvement in food imports in the region.

In conclusion Dr Takavarasha recommended that there must be regular and open communication between government and the private sector, especially in the area of import requirements and domestic policies. There should be more advanced joint planning to avoid logistical bottlenecks. National grain councils were strongly supported as a means for strengthening coordination of food logistics among the various players, and improving the management of strategic food reserve systems. Trade should be facilitated by simplifying and decentralizing customs and phyto-sanitary procedures.

Discussion

Private sector participants stressed the importance of having market information available. In particular they were concerned to know of stock levels of Food Security Reserves and government plans to release them.

It was recognised that governments faced many constraints in policy making and that there could be political problems associated with pursuing policies that relied on the private sector to make all commercial imports. However, several speakers stressed the damage caused by misguided policies and felt that the workshop needed to address how best to get policymakers to understand the damage that such policies could cause. Where policies were predictable the private sector could take the same calculated risks that the private sector takes worldwide. Where policies were not predictable the risk was too high.

Other speakers stressed the need to better address production issues. One questioned why the sub-region often had to rely on supplies from outside the region, while another stressed the importance of irrigation development.

2.2 The role of the South African private sector in meeting food shortages - *Mr Jannie de Villiers (SA Chamber of Milling) and Prof Johann Kirsten (University of Pretoria)*

With South Africa considered to be food secure at national level, this paper focused largely on the South African private sector's engagement in meeting food shortages in the SADC region. To a large extent the paper by Mr De Villiers and Prof Kirsten focused on WFP purchasing activities in South Africa and also highlighted the various constraints facing South African businesses in assisting with food aid activities in the region.

WFP procures food supplies from South African suppliers who are registered on the WFP Preferred Suppliers' List. This is a list of suppliers who have applied and been accepted to supply materials to WFP. Consequently, WFP does not advertise open tenders but sends out tender invitations to companies on its database. For suppliers to qualify to be registered as preferred suppliers they need to be registered companies which have been in the business for a minimum of three years, be able to supply letters of reference from previous clients, and submit acceptable financial records. WFP also requires a 5 percent performance bond when a tender is being awarded to a supplier. This means that a supplier pays in 5 percent of the value of the contract to WFP as security that the supplier is able to deliver within WFP specifications. In the event that a supplier is unable to meet the requirements of the contract, the 5 percent performance bond is then cashed in by WFP and the supplier loses the contract.

No matter how substantial WFP's activity in South Africa, it makes little impression on total agricultural production. Total purchases[1] by WFP have ranged between one fifth and three quarters of a percentage point of the gross value of South African agricultural production over the past four years. A similar conclusion can be drawn with respect to the share of maize production. While other agencies (IRC, various NGOs, etc.) are known to purchase food in South Africa for distribution in other parts of the sub-continent, the extent of these purchases is not known, nor does the government keep any record of such purchases. WFP is expected to be the largest purchaser for this purpose in South Africa.

Maize accounts for the largest slice of WFP food purchases. Nevertheless, these purchases represent a small proportion of South Africa's total maize production. In 2001 and 2004 WFP purchases made up 0.39 percent and 0.58 percent of production output of maize respectively, and 0.73 percent and 0.79 percent of the value of output. By contrast, in 2002 and 2003 it represented just less than 3 percent of physical output, and just more than 3 percent of the value of output of maize. In the years for which data are available, purchases of maize meal made up at most about one third of a percentage point of the total tonnage of maize meal output.

There are numerous factors influencing the role of the South African private sector in participating in supplying food to the sub region. These factors are applicable during commercial trade and sometimes also when supplying food aid to the region and include:

Price

It is common knowledge that the policy followed by organizations like the World Food Programme is that when United Nation member money is used to procure food, they will put it out on tender and that it will be awarded to the supplier with the lowest price that can meet the specifications. These specifications are not necessarily very strict. The World Food Programme does not consider the fact that the suppliers might have subsidized their prices, neither the fact that it could be supplied by a country that utilizes a tariff policy to cross-subsidise their exports/supplies for food aid.

The other well-known factor influencing the prices of food aid is the condition that the donor of the funds puts on the World Food Programme in supplying the food aid. These conditions are almost without exception that the food should be procured from the donor country.

When analyzing the pricing policy of the wheat flour exporting countries (Global Trade Atlas, 2006), the flour prices to Africa are between 20 and 30 percent cheaper than the prices supplied to the rest of the world. In the case of Turkey, the average flour price in 2004 to Africa was $149 per ton whereas the prices to the rest of the world averaged $235 per ton – 57 percent lower to Africa. This is clearly indicating that Africa is the dumping ground for commodity food supplied to this region. This makes it very difficult

[1] Purchases from South Africa make up 51.2 percent of WFP regional purchases by value and 55.5 percent by weight. However, these include all purchases, not only maize.

to compete in this unleveled playing field via the normal commercial way of doing business.

Logistics
One of the biggest constraints that makes South African industry reluctant to participate in supplying food to the sub region is the problem of logistics. Transportation into Africa remains a very risky and expensive part of being a supplier. We have seen a huge deterioration in the service levels and reliability of the South African Railway utility (Spoornet) over the last ten years. According to the National Chamber of Milling, in South Africa alone the percentage grain transported by rail decreased from 85 percent in the 1980s to less than 50 percent in 2005. This is a very clear statement by the free market in the private sector that despite the rail friendliness of grain, the only supplier (Spoornet) is not capable of rendering a proper service. The trans-border operations of Spoornet also decreased substantially during the same period.

Quality
In the 2003 food shortage in the Southern African Development Community region, we have experienced that the quality of the product that was supplied to this region would have been refused by the recipient country if it was supplied under normal commercial circumstances. The maize supplied by the United States to Zimbabwe was genetically modified maize and refused by Zimbabwe unless it was milled outside the country. The South African milling industry offered to mill this product under certain conditions and was surprised that the product actually was discharged in South Africa given the poor state of the quality of the product. The authorities in South Africa would have never released the cargo of the vessel should it have been a normal commercial transaction. The bulgur wheat that was received by Zimbabwe during the same period was sent to a laboratory for analysis in South Africa and it was found that the toxic levels in the wheat were four times more than the South African authorities would have allowed the trade in South Africa to buy. Added to this issue, we have also seen the impact of genetically modified policies influencing the supplies of food and sometimes causing a lot of frustration to donors willing to help in emergency conditions.

Quantity
During the 2003 food aid to the Southern African Development Community programme, the South African milling industry has also experienced that the commercial industry in Lesotho and Swaziland were complaining bitterly that the country was over supplied with food aid to such an extent that they were forced to sell their product into South Africa to keep their mills going.

Discussion
It was noted that in 1980, 85 percent of maize transport in southern Africa was by rail. That figure is now less than 50 percent. Road transport costs around 30 percent more than rail but the rail system is in a poor condition. Logistics difficulties this year had been so bad that some consignments from South Africa to Zimbabwe had been sent by sea via Mozambique. Trucks were taking seven days to travel from South Africa to the Democratic Republic of Congo. The lack of logistics coordination between food aid and commercial shipments was noted. Another speaker stressed the problems caused by internal road blocks. A journey between Blantyre and Lilongwe had five such blocks.

Several criticisms were made throughout the workshop of food aid practices. Another speaker noted that aid shipments were frequently based more on political pressure to absorb domestic surpluses than on the need of the recipient country. Monetization of food aid by NGOs, for example, was a particularly important problem in the sub-region.

Speakers stressed the need for the private sectors in the sub-region to work together to ensure that their perspective was appreciated by governments. At present the private sector is too fragmented and lacks a single voice.

2.3 The role of the private sector in food emergencies in Zimbabwe - *Mr Sholden Gono with interventions by other Zimbabwe participants*

Mr Gono, a grain trader and processor, addressed the key concerns of the private sector in participating in the market for emergency food supplies. Poor information, as well as poor dissemination and sharing of information, was considered to be one of the major problems. Logistics mainly related to poor transport conditions and pilferage of product.

Mr Gono discussed in detail the impact of food relief supplies. It creates opportunities for the private sector but it can also provide raw material for value addition – all thus creating opportunities for the private sector. The reality is, however, that a considerable share of the trade of emergency supplies occurs in the informal sector.

The presentation concluded with a series of recommendations that could bring about a much stronger participation of the private sector in food emergencies in Zimbabwe:

- The private sector should be allowed to import food supplies
- Import licensing should be abolished
- Grain Advisory Council should be resuscitated
- Price controls should be abolished

Discussion

Participants noted that although there was a need to develop communication mechanisms between the private sector and government, there was no guarantee that such a mechanism would not break down, as well illustrated by the case of Zimbabwe when the Grain Advisory Council ceased to function in 2002. There was a general acceptance of the urgent need for maize market policy reform in Zimbabwe as the present system of price controls is encouraging parallel markets, corruption and, even, cross-border exports from Zimbabwe, which is in deficit, to Mozambique, which is in surplus. Participants from Zimbabwe noted the difficulty faced by the private sector in obtaining foreign currency.

2.4 The Zambian experience with the 2005-06 food emergency - *Mr Andrew Shepherd, FAO with interventions by Zambian participants*

In his presentation, Andrew Shepherd described the situation prevailing in Zambia in the second half of 2005. It is now generally agreed that there was a commercial deficit of around 200,000 tons in 2005-06 but initial Government maize crop forecasts underestimated the extent of the shortfall, suggesting that while there was a deficit it was capable of being taken care of by Food Reserve Agency (FRA) sales, cross-border imports and other crops such as cassava. This underestimate was accompanied by political statements that Zambia was no longer going to import maize. As a consequence there was an initial unwillingness to accept the private sector's estimate of the deficit and imports were also delayed because the Government was not issuing import licences and because of concerns about GMO maize. Further delays were caused by a debate about import duties (15 percent), causing importers to put off imports until the matter was resolved. Resolving the problem took three months, during which time the private sector made no import arrangements. Even after the Government announced that it was waiving duties from countries outside COMESA (in effect, South Africa), there was uncertainty as to whether this applied to all shipments, only those by FRA, or only those by FRA and mills. At one time there was concern that traders were excluded from the waiver. When the matter was resolved the Government then introduced new SPS measures, which delayed imports for a further three weeks.

The Government requested FRA to import 50,000 tons for subsidized sale to mills. However, by the time of this workshop only 20,000 tons had arrived. FRA, private importers and WFP all suffered from logistics problems. These could have been minimised if Zambian importers could have scheduled imports over a reasonable period and had been able to book transport in advance. However, delays to commercial imports created major problems. Both Zimbabwe and Malawi had much greater deficits than Zambia and virtually all available transport was fully occupied. Transport rates rose rapidly. Because of its proximity to South Africa and consequent faster turnaround time, truckers and the railways had a preference for delivering to Zimbabwe. As further problems the railways were experiencing major difficulties even before the drought, while road border delays at the Zimbabwe and Zambian borders were lengthy as a result of both the weight of traffic and inefficient procedures.

In order to avoid similar problems in the future, both in Zambia and in the region as a whole, Mr. Shepherd recommended that governments should create formal channels of communication with the private sector, which could be done through the establishment of a National Grains Council, or similar body. At the regional level, COMESA or SADC, possibly with donor support, should establish a grain marketing monitoring and policy advisory unit, which, *inter alia*, would provide a forum for discussion between governments. Furthermore, he argued that governments should seriously consider abolishing import and export controls on both COMESA and non-COMESA maize and that import and export licences should also be abolished.

Mr. Shepherd considered that where there appeared to be a demonstrated capacity on the part of the private sector to make commercial imports and where the state had no obvious advantage over the private sector in making such imports, governments in the region should not import maize destined for the commercial market. He also felt that ways needed to be explored of ensuring access of the small-scale sector to maize during deficit years. Providing commercial finance to small-scale traders to enable them to access imports may be one approach. Importers should consider reducing the minimum quantities they were prepared to sell in order to attract a wider clientele and provide work for small-scale operators.

Discussion

Participants from Zambia indicated that import duties were introduced in part because of the decision to apply VAT to the agriculture sector, so pushing up costs of farmers. They agreed that the absence of dialogue was a problem and noted that it was difficult for representatives of millers and traders to meet with politicians and senior staff of the Ministry of Agriculture and Cooperatives. Concern was also expressed about subsidized imports undercutting domestic prices. They noted that many private operators had lost money as a result of previous Government interventions. The representative of the Food Reserve Agency indicated that plans call for the FRA to operate mainly in rural areas in future.

2.5 The private sector and food emergencies in Malawi

Mr Charles Mataya, Bunda College, Malawi

During the past five years Malawi has experienced a shortfall in food of approximately 450,000 mt. On average the Government imports 250,000 mt of maize for commercial distribution with a limited quantity of maize imported by the private sector (2005 estimate – 70,000 mt). In order to avert hunger the Malawian Government has also embarked on the humanitarian distribution of food; the free distribution of inputs (1999-2004); Public Works Program – cash, food and inputs for work; the promotion of cassava production and the promotion of irrigated maize production in the winter.

The Government continues to be involved in food and input marketing to maintain low prices. In this context there remain important challenges to designing strategies. There is, however, no consensus on the extent of food insecurity and vulnerability with the Government relying on crop estimates and donors on Vulnerability Assessment and Mapping (VAM). There is also considerable distrust between government and the private sector.

As a result of continued policy interventions there has been a considerable drain on foreign exchange and the National budget. Apart from macro-economic instability and inflation it also contributed to increased risk to private sector investment in input and output marketing. Government's involvement in input and maize sectors therefore limits private sector development.

In closing Dr Mataya provided some recommendations which could help to strengthen the role of the private sector in food emergencies:

- There should be a clear demarcation between development and safety-net programmes.
- Government should contract the private sector in the delivery of safety net programmes such as input subsidies and free food distribution.
- Government involvement in input and maize trading should be curtailed.
- VAM and Crop Estimates programmes to be merged and conducted by an independent body.

Discussion

Participants again noted the need for accurate information about crop size and considered that better crop forecasting would have avoided excessive imports by Malawi in the past. The participant from ADMARC clarified the nature of the agency's involvement in the market and pointed out that the private sector had in the past been unreliable, by not honouring contracts.

2.6 Overview of the trade-based approach adopted by Mozambique in terms of food grain marketing - *Mr Higino de Marule, Technoserve, Mozambique*

Mr de Marule, former Chief of the Policy Analysis Service of the Ministry of Agriculture of Mozambique, currently Director Research and Development, Technoserve, Mozambique, provided an overview of the trade-based approach adopted by Mozambique in terms of food grain marketing. He highlighted a number of the past changes in the food system, notably the transitions from a command to a liberalized market economy and from a deficit national cereal market, dominated by food aid deliveries, to a two-tier market with deficit maize production in the south and export-oriented surplus production in the north. He also explained that there is a wide recognition now that Mozambique needs to export maize from the North and import maize in the South as domestic transport costs make north-south maize movements uneconomic.

Regarding the overall cereal trade policy framework, Mr. de Marule provided a brief description of the various trade-facilitating tools used by the Government. These include the absence of price controls (with the exception of cotton) or subsidies, the non-use of import or export bans and the absence of limitations to cross-border trade. Mention was also made of the fact that Mozambique enjoys a fully liberalized commodity trade import/export regime and has no food security reserve or price stabilization stocks. The former grain marketing board – the Mozambican Cereal Institute (ICM) - is being restructured to become a warehouse manager and marketing facilitator. Of interest was also that the Government had increased pressure on WFP to procure food aid requirements locally.

Amongst the issues raised for future consideration, Mr. de Marule specifically mentioned the need to find a solution for the integration between SADC and COMESA (Mozambique has left COMESA and needs to negotiate bilateral agreements with some of its neighbours to avoid the COMESA 25 percent external tariff). He also expressed concerns over the different pace of preparation for and implementation of the SADC Free Trade Protocol amongst SADC member states and the need to find trade-based solutions at SADC level (harmonization of grain marketing policies, border procedures, SPS measures, etc.) to facilitate regional cereal trade. Finally, he recommended that mechanisms be created to facilitate regular policy and information exchange between public and private sector at regional level.

Discussion

Following the presentation the private sector from Mozambique noted that no finance was available to traders, either for stockholding or to build new stores. Other participants indicated that this was also a problem throughout the sub-region. There was also further criticism of WFP policies. Insistence on Grade A quality for domestic procurement was considered to be too rigid and not reflecting the food needs of the people. Other speakers also reiterated the problems associated with food aid. The need for a food aid “exit strategy” was stressed as was the need for a regional approach to meeting food shortages.

2.7 Enhancing market development and food security: role of the Zambian warehouse receipt system - *Mr Martin Hamusiya, ZACA*

The paper by Martin Hamusiya, Chief Examiner of the Zambian Agricultural Commodity Agency, (ZACA) provided an overview of the main activities of ZACA, specifically highlighting the system of Warehouse Receipts (WR). The working of the system can be characterized and described as follows:

- Potential depositors deliver grain to ZACA certified warehouses.
- The grain is graded and weighed for quality and quantity determination; if it meets the grade, it is accepted into storage. Otherwise, it is rejected.
- Depositors request to be issued with a ZACA Warehouse Receipt (WR).
- Depositor can use WR as collateral to access loans of up to 80 percent of market value of deposited grain or may trade the WR as a proxy for the underlying commodity.
- Collateralized grain is sold when favourable conditions obtain in the market and the loan is the repaid.
- Warehouse receipts could be used by processors to raise working capital to procure additional stocks or finance other related activities.

The WR system can help improve agricultural marketing by easing access to finance, by making stored commodities acceptable collateral; and by enabling efficient "sight-unseen" trade (which does not entail physical sampling by traders) to develop. The benefits of the system to smallholders are realised indirectly through its aggregate impact on:

- Commodity prices, especially during the harvest season, and
- The transparency of price formation.

The system also provides direct benefits for members of marketing groups by getting a better deal when selling their crops through:

- bulking up their produce for sale further down the marketing chain, to processors, millers and large traders, and
- a strengthened bargaining position as a result of their ability to defer sale through access to inventory credit and access to market information (disseminated through ZACA's website and notices at the certified warehouses).

Mr Hamusiya then went on to describe the current status of the WR system. Regulations were developed, defining bases for certification and monitoring of certified warehouses. Grading and storage standards have been set for maize, soya beans, and wheat; groundnuts, sorghum, and sunflower have been recently added; work on cassava, fertilizer and seed standards is in progress. Five certified warehouse operators are already able to implement the system with 155 000 tonnes storage capacity in seven locations. A total of 71 700 mt of grain was deposited, receipted and financed in 2003/4 marketing season – (US$ 7 520 000 in loans accessed). The key financial institutions are already providing financing such as Barclays Bank, Stanbic Bank, Intermarket Banking Corporation and Standard Chartered Bank and there are also discussions with other smaller banks to bring them on board as well.

2.8 The role of SAFEX in minimizing the impact of food emergencies in the sub-region: The case of Malawi - *Mr WA Nell, Standard Bank, South Africa and Ms Julie Dana, World Bank*

The paper by Julie Dana and WA Nell presents an illustration of innovative approaches dealing with the systemic problem of the inability or unwillingness to meet the full demand for staple food. In Malawi it is a result of ADMARC's subsidized prices and many role players waiting for donor/WFP purchases. Except for 2-3 big traders, most others private traders do not have capacity to carry out large-scale imports. This is usually related to limited access to trade finance and risk management instruments. In Zambia the limited participation of the private sector is largely a result of the fact that there is no clear view of what government is going to do. It is also rather difficult to engage in any trading transaction when government intervention increases cost and risk

The paper presented the workings of the risk management approach – in essence a call option on SAFEX. The Malawian Government's interest in a risk management solution originated from its concern about local price increases, regional (South African) price increases and a concern about the private sector's ability and willingness to bring in commercial imports. It also ventured into this risk management plan in case of any sharp increases in prices.

The risk management plan is a structured financial product developed by Standard Bank in close collaboration with the World Bank (which paid the premium). It is a call option which gives the Malawian government the right but not the obligation to buy maize. It gives government protection against prices moving up and also provides a capped price level for imports if and when they are needed. It is structured so that it can be triggered (exercised) in tranches.

The contract was specified as follows:

- 60 000 mt of non-GMO white maize
- Average capped purchase price was below $300 / mt
- Premium cost to lock-in that price: below 10 percent
- SAFEX price base + fixed transport costs to Malawi to give price protection in local, delivered terms
- Customized to give flexibility

The impact of this arrangement was that deliveries moved well and all-in-all performed better than other tenders. With strong counterparties involved it was possible to make changes in routing to ensure timely delivery. The result was that market prices moved up with prices in Dec/Jan USD $50-90 / mt higher than ceiling price locked in through the option contract. In comparison Zambia was importing at significantly higher prices than Malawi.

Ms Dana closed her presentation by also highlighting some of the lessons they have learned in implementing this new approach. One of the most important lessons learned was that the private sector likes the approach because it provides a good signal about government intent. Usually there are too many risks for local traders to import commercially (policy, market, credit, logistics, price) but the call option provides a mechanism for government and donors to help finance and mitigate risks and turn it over to the trade when exercised.

Discussion

It was pointed out that food shortages tend to lead to a vicious circle. Prices go up, government and donors panic and talk about importing, as a consequence the private sector is reluctant to import and prices go even higher. It was again emphasised that responses to shortfalls are always planned too late.

Participants expressed considerable interest in Ms. Dana's presentation. However, it was felt that further refinement was required if Options as described could address the sub-region's problems. Speakers asked where the resources for the premiums would come from and also pointed out that the way in which maize purchased through options would be released onto the commercial market appeared unsatisfactory.

Some concerns were also expressed that we are moving too fast for countries where the 'spot market' has not even been developed to its fullest

2.9 The Ugandan Grain Industry and the World Food Programme and Food Aid - *John Magnay, Ugandan Grain Traders Ltd*

This presentation provided a descriptive overview of the role of Ugandan Grain Traders (UGT) in supplying grain to countries in the Great Lakes region and beyond. It was presented as a practical example and case study of private sector companies and their role in supplying grain to food aid activities. UGT was formed in Sept 2001 by 16 grain trading companies all responsible for producing export quality. UGT is responsible for all the finance, storage and marketing related to the grain supply chain and export.

Having highlighted the capacity of UGT to supply the local market and trade in surplus maize, similar concerns as presented in the South African paper about the practices of WFP and other food agencies, were raised. The price negotiations as well as sourcing policies of these organisations seem not to be effectively linked and coordinated with the private traders in many of the countries in the region.

2.10 Grain trading systems and market information - *Stephen Njukia, RATES programme*

The RATES programme is commodity based and focused on regional integration in Eastern Africa. The programme documents the trade flows (formal and informal) of the major staple foods and in the process provide valuable information on the availability of food in various parts of the region.

RATES provides a trade linkage mechanism to ensure that trade takes place. Lists of traders are provided; prices are recorded at various localities and then disseminated. At the same time offers to buy and offers to sell are presented and distributed via a web page and a monthly bulletin. Market information is provided for Kenya, Tanzania, Rwanda and Uganda. The market information includes an overview of the food balance sheet position which reflects information on informal and formal trade. With this information it is possible to forecast trade opportunities.

This information will assist trade facilitation and thus improve trade flows between countries in the region and thereby ensure a much better distribution of food, which will reduce the need for emergency food supplies. It is therefore important that government and the private sector work together to ensure the availability and recording of the information on trade flows, stock levels and prices.

2.11 Monitoring informal cross border food trade in Southern Africa. *Ms. Phumzile Mdladla, FEWSNET*

The final presentation of the workshop considered the contribution of informal cross-border food trade in redressing food supply/demand imbalances. The extent of informal trade in the major staple foods is presently not adequately captured in most countries, resulting in ineffective planning. In the absence of this data import needs or food aid can be over-estimated.

Considering the importance of obtaining this type of data, FEWSNET implemented a project to collect data to document the volumes and direction of trade of major food commodities to assist in hunger reduction. The presentation provided an overview and illustration of the extent of informal cross border trade in SADC and illustrated the use of the cross border trade data in Food Balance Sheets, strategic regional trade and food aid planning and humanitarian response. There is a general consensus amongst all stakeholders consulted, on the value and importance of this data. The typical benefits of the data supplied by the FEWSNET project include:

- A more detailed account of informal food markets
- An up to date picture of commodity flows
- More complete estimates of cereal supply
- Better estimates of food aid needs
- More informed import decisions by governments
- Better planning of grain purchases by parastatals
- Identification of trade barriers and constraints

Specific applications of the data provided by this project already included aspects such as: national food balance sheet calculations and assistance with procurement operations of WFP, Government and traders. It furthermore also provides a useful input into trade policy debates. However, in response to questions from the floor Ms. Mdladla noted that the data only referred to trade passing through official borders and did not include unofficial trade.

3. Summary of general discussions

During the general discussion session the participants highlighted the need to understand the political dimensions of food security policies. A more detailed analysis of the issues than was possible during this workshop was recommended. Some participants felt that there remained a lack of market competition in countries of the sub-region. Others felt that politicians were contradicting themselves by accepting free trade in theory and then intervening in the market. It was noted that poverty alleviation was used as a justification for market intervention but that any intervention had consequences for the functioning of a market. In the case of food security reserves it was often not clear whether governments sought to hold stocks to meet food emergencies or to maintain political power. Some considered that the best approach to poverty alleviation would be to foster the development of a thriving, competitive private sector.

Participants agreed that issues such as these should be more widely discussed at both national and regional levels. Until now, dialogue had been *ad hoc* because in years of surplus there was a perception that there was nothing to discuss. However, there was a need to develop contingency plans. Some participants felt that donors should facilitate a regional dialogue.

In the closing session Mr Shepherd provided an overview of all the points raised during the two day meeting. This is best summarized under key points with some important points listed below each:

Developing an understanding of different points of view

- private sector, economists, donors, etc. make recommendations that they regard as technically sound, often with a limited appreciation of the political difficulties in implementing such recommendations;
- on the other hand, politicians often implement policy with little or no reference to those who work daily in food marketing, or who carry out food security analysis;
- private sector needs to convince governments of its capacity to supply markets at times of shortage, by storage investment, stock holding, etc.;
- a shared understanding of different points of view is essential. How can it be achieved?

Developing confidence through improved communication

- openness and information sharing is crucial through structured and continuous dialogue;
- need for national-level forum (Grains Council?) with which governments would consult on a regular basis not just at time of policy formation;
- need for regional forum to address trade, SPS, and other issues;
- there must be agreement by government(s) to always consult stakeholders through such bodies.

No consistent signals from government!

- The private sector will only act when it is confident that the profitability of its operations will not be jeopardized by ad hoc government interventions;
  - Need for clear statement of policy, consistently applied;
  - How to achieve this?
  - Need for distinction to be made between the relief role and the poverty alleviation role;
  - Lack of clarity about the role of food aid and inconsistent food aid arrangements.

Need for a regional approach

- countries are not islands: food security needs to be looked at from a regional perspective not a series of national perspectives;
- long-distance food shipments can be minimized if imports and exports are freely permitted, so permitting most cost-efficient use of limited transport;
- how will countries adjust to the SADC Trade Protocol in 2012 when they still continue to impose trade barriers? Will the Protocol be implemented?
- what can be done now to foster a regional approach to food security?

But the private sector must also get its act together

- The private sector does not speak with one voice;
- Is there scope for a regional meeting of grain traders and millers to discuss common issues and, perhaps, develop a regional organization?

Surpluses also present problems

- In the long run surpluses can be just as damaging for food security as droughts, if low prices encourage farmers to stop planting;
- Governments therefore need to avoid interventions such as export bans that could have negative price effects.

Improved coordination

- droughts tend to hit most of the region at the same time. A coordinated response embracing policy and logistics issues is required. Early decisions about commercial and relief supplies are essential to avoid logistics problems. This requires clear and consistent policy, not last-minute decisions;
- there is a need to minimise competition between private and public sectors for transport resources.

New approaches

- The private sector already trades futures on SAFEX. Trading of Options may offer possibilities and may be welcome to politicians reluctant to leave food security to the private sector;
- The use of warehouse receipts is potentially important for traders and large farmers but use by small farmers may not be commercially feasible;
- The success of weather insurance, as WFP is presently experimenting with in Ethiopia, should be closely monitored.

Information requirements

- *What market price information does the private sector require?* SAFEX price; web-based trading such as trade Africa; cross-border prices?

- *What other information is required?* Crop estimates; stockholding by government and planned releases; policy and market/trade regulation changes; latest SPS regulations.

Trade issues
- Governments must honour existing agreements;
- SADC and COMESA should work towards harmonization with eventual aim of removing all trade restrictions;
- Urgent attention needs to be paid to upgrading customs services, improving border procedures, removing internal police blocks, etc.

Recognizing the role of the informal sector
- The importance of cross-border trade has been demonstrated and this needs to be recognised by a willingness of governments to permit it even at times of scarcity;
- When there are shortages the informal sector (millers and traders) loses out because imports are directed to commercial millers. Ways of addressing this problem need to be developed both for aid and commercial supplies;

Infrastructure
- Infrastructure, particularly railways, requires urgent attention. It is ridiculous that RSA has had to supply Zimbabwe by sea. Road improvements and new roads could greatly facilitate trade;
- Private sector capacity to invest in storage is constrained by lack of finance and, sometimes, foreign currency shortages. What needs to be done for banks to lend for private sector infrastructure development?

and not forgetting production
- part of the problem faced in the sub-region is its maize monoculture. Efforts should be stepped up to encourage diversification by developing new markets (e.g. for cassava meal);
- food crops are predominantly rainfed. Increased efforts need to be paid to developing irrigation and other technological improvements should be promoted.

Follow-up actions/The way forward
It is probably fair to say that it is not the first time that such recommendations have been made, but they seem to have little impact in the past. How can policymakers be approached in a regional context?
  - high-level regional meeting (e.g. at time of SADC Conference)?
  - national policy missions (organized by who?) to discuss these issues with politicians and others.

The expected year of surplus in the region presents a golden opportunity for policy reform. It is important, however, to recognize that policy reform requires ongoing dialogue. Just one meeting is not enough.

Annexure 1

Final Programme

<u>Wednesday 22 March 2006</u>

Delegates from outside South Africa arrive and check into Centurion Lake Hotel

<u>Thursday 23 March 2006</u>

08.30 – 09.00:	Registration
09.00 – 09.30:	Opening and Welcome: *Mr George Mburathi, FAO Representative in South Africa* *Prof Johann Kirsten, University of Pretoria*
09.30 – 09.40	Background, context and purpose of workshop *Andrew Shepherd, FAO, Rome*
09.40 – 10.25	The role of the private sector in addressing food emergencies and vulnerabilities in southern Africa. Experiences of recent years. *Tobias Takavarasha, FAO Consultant*
10.25 - 10.50	The role of the South African private sector in meeting food shortages. *Jannie de Villiers (SA Chamber of Milling) and Johann Kirsten (University of Pretoria)*
10.50 – 11.00	Discussion
11.00 – 11.30	*Tea/Coffee*
11.30 – 12.00	The role of the private sector in food emergencies in Zimbabwe *Mr Sholden Gono with interventions by other Zimbabwe participants*
12.00 – 12.30	The Zambian experience with the 2005-06 food emergency *Andrew Shepherd, with interventions by Zambian participants*
12.30 – 13.00	The Malawian experience with the 2005-06 emergency. *Charles Mataya*
13.00-13.15	Discussion
13.15 – 14.30	*Lunch*

14.00 – 14.30	Overview of the trade-based approach adopted by Mozambique. *Higino de Marule, Technoserve, Mozmbique*
14.30 – 15.00	The use of Warehouse Receipts to promote market development and minimize the impact of food emergencies. *Martin Hamusiya, ZACA, Zambia*
15.30 – 16.30	The role of SAFEX in minimizing the impact of food emergencies in the sub-region: The case of Malawi *WA Nell, Standard Bank, South Africa and Julie Dana, World Bank*
16.00 – 16.30	Discussion

Close of Day 1 and Tea/Coffee

Friday 24 March 2006

09.30 – 10.00	Supplying WFP. The impact of food aid on maize market development in Uganda, *John Magnay, Uganda Grain Traders Ltd.*
10.00 – 10.30	Discussion
10.30 – 11.00	*Tea/coffee*
11.00 – 12.45	Open discussion on the roles the private sector can play in overcoming food shortages and the constraints faced by the private sector to supply food for food emergencies. *Facilitator: Frans van de Ven, FAO, Mozambique* *Brief presentations by government and private sector representatives.* *Floor discussion.*
12.45 – 14.00	*Lunch*
14.00 – 14.30	Grain trading systems and market information. *Stephen Njukia, Commodity Specialist, RATES*
14.30 – 15.00	Monitoring informal cross border food trade in southern Africa. *Ms. Phumzile Mdladla, FEWSNET.*
15.00	Open discussion and summary of discussions: *Andrew Shepherd*
16.00	Closure Tea/Coffee

Annexure 2

List of Participants

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Annexure 3

Speech of welcome by Mr G. Mburathi, FAO Representative in South Africa

Ladies and Gentlemen,

On behalf of the Director-General of FAO, Mr Jacques Diouf, it is my pleasure to welcome you to Pretoria.

I attach particular importance to the subject of this workshop. During my time in the Ministry of Agriculture in Kenya and, subsequently, as FAO Representative to Malawi, Zambia, Ethiopia, and, now, South Africa I have observed the major difficulties faced by the Eastern and Southern Africa Sub-Region in organizing efficient food marketing. To my mind this is one of the most pressing problems facing us in the field of agriculture. Yet agricultural marketing improvement is a topic that has up to now received inadequate donor support and ad hoc attention by governments.

I am therefore very pleased that the French Government has agreed to support this workshop. Under a project entitled “Improving the Policy Environment and Related Capacity For Sustainable Food and Agriculture Development in The SADC Region” France is providing close to €1.4mn for a wide range of policy-related activities in Southern Africa. This should make a major contribution to the resolution of many of the policy issues currently faced and I should like to thank the French Government for its assistance.

Food Security is, of course, the main concern of all governments in the Sub-Region. We live in an area where agriculture is predominantly rainfed but where rainfall cannot be relied on. Last year Kenya, Malawi, Zambia and Zimbabwe experienced significant food supply problems. This year drought has touched the North of Kenya. Production shortfalls caused by droughts and other events naturally lead to immediate responses by governments. However, history shows us, as you will be discussing this week that quick and often ad-hoc policy decisions by governments, without adequate consultation, often cause more problems than they solve. It is clear that improved dialogue between governments and all stakeholders is necessary if food supply problems are to be addressed in a cost effective, efficient and sustainable way. I am sure that the respective roles that each party can play in overcoming national food shortages will raise interesting debate at your meeting.

In some government circles there remains considerable suspicion about the motives and actions of the private sector. For this reason the role that the private sector could play in times of food shortages is often not considered and policy decisions, whether intentionally or not, often make it difficult for the private sector to supply commercial markets. By bringing together government and private sector representatives this meeting gives those involved in food marketing in the Sub-Region the opportunity to understand all points of view. Your formal discussions are important but so are informal discussions in the evening. The greater the level of dialogue the less chance of future misunderstanding.

I wish you every success in your deliberations and look forward to learning of the results of the meeting.

Thank you