

Toward Improved Maize Marketing and Trade Policies to Promote Household Food Security in Southern Africa

Initial Project Summary, February 26, 2004 (project funding period: January 2004 – December 2005)
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1. Problem Statement

Food marketing and processing costs account for 50 to 70 percent of the total cost paid by consumers in Southern Africa for staple maize meal. Strategies that can successfully drive down costs within the marketing system can simultaneously raise the incomes of farmers, improve poor peoples' food security and disposable incomes.

The food marketing systems in much of Southern Africa appear to be increasingly segmented into two channels that are poorly integrated. On the one hand, "*formal*" marketing channels link commercial farmers (mainly in South Africa) to large grain trading, processing, and retailing firms with growing subsidiary distribution networks throughout Southern Africa. By contrast, the "*informal*" marketing systems in the region, on which most small-scale farmers rely, are generally characterized by (a) spot market transactions with weak mechanisms for market-based risk management; (b) weak information systems for reporting local market conditions; (c) limited coordination between input delivery, farm finance, and crop sale, resulting in part from poorly functioning input credit systems, in which non-repayment remains a ubiquitous problem; and (d) small businesses with relatively little political influence or voice in the determination of regulations governing the agricultural sector. This contrasts markedly with formal sector firms, which have organized lobbies and are widely perceived as having a legitimate interest and voice in the determination of regulations governing agricultural markets.

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 that are rapidly expanding in the region.

2. Conceptual Framework and Underlying Assumptions

Our theory of change to solve the problem is that by developing local ownership in the project's design and implementation, and linking the project formally to the Ministries' activities, then there will be a higher degree of trust in the project's findings and in policy makers' willingness to directly take up these issues in policy discussions with senior government officials.

The following are the basic premises and hypotheses for study under the proposed study:

1. white maize is the main staple crop in region.
2. many Southern African countries rarely produce enough maize to feed themselves and often import 2-5 months of their annual maize requirements, more in a severe drought year.
3. South Africa now holds the bulk of the region's surplus white maize, and most countries are increasingly reliant on South Africa. White maize is increasingly plentiful on world markets, but normally at a higher price and lower quality than generally available in South Africa.
4. Informal marketing channels in most Southern African countries supply the bulk of rural and urban maize consumers in 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 to grind maize into maize meal.

5. When local supplies are depleted, these countries' informal marketing channels become thinly traded, and they do not (or are not able to) source grain from large "formal sector" maize marketing firms.
6. As a consequence of points 1-5, imports and subsequent local marketing of maize during the lean season are predominantly handled through formal marketing channels. These channels feature large-scale roller milling firms, selling mostly refined, expensive, and less nutritious maize meal products compared to the wider range maize meals available through small-scale milling and retailing firms of informal channels.
7. South Africa has relatively high farm-to-retail maize marketing and milling margins, and the highest maize meal prices, when compared to other maize-producing countries in the region.
8. Because of high costs in the formal marketing channels, and the tendency for grain supplied by formal sector firms not to be distributed in informal markets, rural and urban consumers -- in both South Africa and neighboring countries -- pay more for their maize meal than might otherwise be the case with a better functioning regional maize marketing and trading system. These problems appear to exacerbate food insecurity in the region, especially for the poor.
9. Policy actions to better integrate the formal and informal maize marketing channels in the region can increase competition, provide greater access to the range of less expensive maize meal products preferred by low-income consumers, and improve production incentives for small-scale farmers capable of growing a surplus.

Preliminary evidence for premises 1 through 7 has been established and will be elaborated upon in the full length paper to be distributed at the April Workshop. Premises 8 and 9 are not established, and these issues form the major rationale for undertaking the project.

3. Project Activities

FANRPAN and MSU are collaborating with individuals in the Ministries of Agriculture in Malawi, Zambia, Mozambique and South Africa to:

- assess the organization, behavior and performance of the formal and informal maize marketing systems in these countries, and the interrelationships between these two systems;
- identify changes in policies, institutions, and public investments that can reduce the costs and risks of maize marketing within the region, with particular emphasis on how to make markets work better for the poor; and
- liaise with senior policy makers in national consultative forums as well as regional policy forums regarding the implications of the study's findings for improving national and regional food security.

4. Major Outputs since Project Inception (January 2004)

- Planning meeting of regional collaborators, Johannesburg, January 23/24, 2004. This meeting assembled the analytical team and national policy makers to guide the studies in each country and generate policy makers' ownership in the project.
- Draft working paper "Effects of Maize Market Deregulation on Wholesale-to-Retail Marketing Margins in South Africa" has been released and distributed to key policy makers and analysts in the region. This paper confirms the project's initial hypothesis that maize meal consumer prices and marketing margins are rising in South Africa since deregulation in 1997. These findings suggest that the current organization of the maize marketing system in South Africa is adversely affecting consumers not only in South Africa but potentially in other countries of the region.

5. Lessons Learned

- Concerning project implementation: need continuous dialogue with ministry of agriculture counterparts regarding implementation of activities and briefing of senior officials
- Concerning potential implications for policy: measures to overcome entry barriers in South Africa's maize marketing system may be important for driving down costs of staple maize meal to consumers in other countries in the region.
- Concerning agricultural market analysis in general: the terms "liberalization" and "reform" are too vague to meaningfully describe the heterogeneous and distinctly different ways in which African countries have implemented changes in the institutions and policies affecting agricultural markets. Preferable to focus on what was actually implemented and not implemented in specific cases and relate this to performance outcomes.

6. Next Steps

- Preparation and implementation of field surveys of market actors (assemblers, wholesalers, processors, retailers) in each study country.
- MSU and FANRPAN researchers will be traveling to Mozambique, Zambia, Malawi, and South Africa from March – May 2004 to collaborate with local counterparts in preparation and implementation of field surveys of marketing actors in each study country and discussing relevant policy issues with Ministry of Agriculture officials.