The Role of the Private Sector in Addressing Food Emergencies and Vulnerabilities in Southern Africa: A Summary of the Literature

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Abbreviations and Acronyms

ADMARC	Agricultural Development Marketing Corporation, Malawi
COMESA	Common Market for Eastern and Southern Africa
FAO	Food and Agriculture Organization
FEWS NET	Famine Early Warning System Network
FRA	Food Reserve Agency, Zambia
GAO	Government Accountability Office, USA
GMB	Grain Marketing Board, Zimbabwe
NFRA	National Food Reserve Agency
NGO	Non-Governmental Organization
RATES	Regional Agricultural Trade Expansion Support
RRU	United Nations Relief and Recovery Unit
SAFEX	South African Futures Exchange
SADC	Southern African Development Community
SARPN	Southern African Regional Poverty Network
SGR	Strategic Grain Reserve
TIP	Targeted Inputs Program
UN	United Nations
WFP	United Nations World Food Program

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1. THE CONTEXT

Southern African nations have increasingly been facing food insecurity problems as a result of various factors including persistent droughts and adverse economic conditions that have aggravated the difficulty of some countries in the region to meet their food needs. Imports of food and grain have been on the increase as the affected countries have tried to mitigate the food shortages experienced. Amongst the Southern African countries that have suffered grain shortages as a result of drought in recent years, Malawi, Zambia and Zimbabwe have been the hardest hit. Governments and their agencies, the United Nations World Food Program (WFP), donors and NGOs, have largely carried out the importation of food and grain into these countries. The Grain Marketing Board (GMB) in Zimbabwe, Agricultural Development Marketing Corporation (ADMARC) in Malawi and Food Reserve Agency (FRA) in Zambia have played a major role in importing grain to fill the cereal deficits experienced, whilst the private sector has played a very limited role in importing commercial supplies as well as relief supplies of cereals in deficit years.

Data presented in Chiwele and Sikananu (2004) shows that in Zambia total food imports have fluctuated from year to year over a fifteen-year period. The reason given for the observed fluctuations is the variability in food aid from year to year. The largest imports of food in Zambia were recorded in 1992, with maize comprising more than 90% of the total. Of food imports into Zambia between 1992 and 2002 commercial food imports were 60% whilst food aid was 39%. For the years 2000 and 2001 food aid, when compared to commercial imports of maize, met a higher percentage of the country's maize gap. The Zimbabwean Government is reported to have imported 92 000 tones of food grains during the 2002/3 drought. About 280 000 tones were received as food aid for distribution by WFP and its implementing partners (FAO, 2003). The COMESA database presented in RATES (2003b) shows that for the year 2000, Malawi spent a greater proportion in US dollar terms on maize imports (mixture of food aid and commercial maize) compared to both Zambia and Zimbabwe.

The private sector is not extensively involved in addressing vulnerability to food security in most of Africa due to various prohibitions and obstacles. Yet, where the private sector has been involved it has exhibited the ability to rapidly respond to vulnerabilities and disasters. SARPN (2005) reports that the private sector remains nervous about getting involved in "development" issues and argues that there is need to build understanding within the private sector and explain that the poor are a new market where return on investment includes a social return. It has generally been observed that the private sector fails to respond to food emergencies and vulnerabilities due to: (1) policies that adversely affect the decision to trade and (2) infrastructural constraints. Despite the existence of these challenges, there are some successful cases of private sector involvement and the challenge is how to maintain and increase this.

In a World Bank report quoted by SARPN (2005), it has been found that in almost all instances where the private sector has been involved in investment through public-private partnerships there was a significant increase in coverage and efficiency and that it is mostly the poor who benefited. Tschirley et al (2004) also highlight the experiences in grain trading (during the 2002/3 food crisis) with private sector involvement in Zambia and Mozambique, presented in Box 1. In both countries Tschirley et al report that the private sector was able to participate but that it was imperative that the operational mechanisms in place should enable the full benefits of this involvement to be achieved. At the same time there was a marked reluctance in the cases of Malawi, Zambia and Zimbabwe to allow the private sector to play a role in overcoming the 2002/3 crisis. The governments of these countries repeatedly either prevented private trade in grain, or interfered in the market and sent confusing signals to traders that seem to have stalled the private sector response (SARPN, 2004; Sahley, 2005). Governments did not have confidence in the capacity of the private sector to deliver the grain at the right time, at realistic prices and in the required quantities.

Effective private sector-driven development in food security depends on new forms of public-private partnerships that are different from those promoted by traditional assistance mechanisms. Public sector assistance, therefore, must be effectively targeted to stimulate and facilitate private sector activity and to address pockets of poverty in the developing world that are being left behind by the upswing in free market activity (SARPN, 2004). The central challenges in public-private partnerships have been identified through literature and include the difficulty of matching needs with resources, lack of appropriate rules for engagement and difficulty in establishing common ground. Central to the current literature is the realization of the need of a regulatory environment within which the private sector is enabled to perform its functions. The role of the private sector is not just to provide the logistics for relief activities but also to import commercial supplies in a deficit year, instead of having this done by government agencies.

Box 1: Benefits of Private Sector Involvement in Grain Importation

In ***Zambia***, the experience in 2002/03 showed that the private sector could import substantial quantities of grain when needed, but better operational mechanisms needed to be designed between public and private sectors if the government was to be assured in future crises that the private sector would be able to import the quantities needed to keep prices stable. ***Mozambique*** provides evidence that this can happen on a regular basis when the government simply stays out of the import business. Prices in Mozambique remained relatively stable during this crisis, and well below those in Zambia and Malawi (although this may have simply reflected lower transport costs).

Source: Tschirley et al, 2004

Throughout the food crisis in 2002/3 the role of commercial markets in filling the cereal gap was highlighted and policies to improve their contribution were discussed (Tschirley et al, 2004). Improvements in information and operational procedures are needed to enhance the response to food emergencies. This is required in order to meet the current food needs of those with neither the income nor the assets to feed themselves, while allowing households to avoid coping mechanisms that increase their vulnerability to future crises. A fully effective response should ideally meet the needs of the poor and most vulnerable groups (SARPN, 2004; Sahley, 2005).

An FAO report on Food Emergencies, cited by Relief web (2005a), provided evidence that cereal import requirements in sub-Saharan Africa in 2005/06 were expected to remain high. Total food aid requirement in 2005/06 was estimated at about 3.2 million metric tons. Cereal food aid pledges, including those carried over from 2003/04, amounted to 2.8 million metric tons, of which 2 million tons had been delivered by January 2006. The efficiency and effectiveness of food emergency response in

Southern Africa has been tested in recent years. Some researchers and policymakers have become concerned that an increasing number of households in the region are becoming more vulnerable to shocks. Producers, traders and consumers are hurt by poor decision-making that undermines the distribution of food. Governments, as observed in Bird et al (2003), have claimed to want to see the private sector develop, but in many instances they have acted to undermine it. In the case of Zambia in 2005 imports of maize were initially delayed because Government was not issuing import licenses, after which further delays were caused by a debate on import duties. The process of resolving the problem is reported to have taken three months, a period during which the private sector made no import arrangements.

Many researchers and policymakers have argued that the private sector should be the main engine for economic development and food security. Privatization in key sectors (e.g. ports, fertilizer manufacturer, seed production) is thought to enable a more efficient use of resources (WFP, 2002). Generally, in an emergency situation, the private sector would expect to be approached for information, advice, assistance, and to assess the impact of policy decisions on agri-food system functions such as farm inputs; farm production; processing; storage and distribution; sales; and consumption.

The performance of private sector trade could be judged successful only if it manages to assure a level of prices that fulfills the expectations of government, producers and consumers and at the same time provides steady incentives for domestic agricultural production to grow within the limits of the available natural and technological resource base. Such a situation, in theory, is achieved in a competitive and transparent market that is free of unnecessary government regulation. The private sector would be in a position to make a major contribution in responding to serious food deficits, either through intra-regional trade, trade within the sub-region or through imports from outside the region. This response, however, will be dependent upon the signals received from governments. **The State needs to indicate a clear and consistent policy and regulatory environment for the private sector to operate.** Policy decisions need to be timely, too, (Caballero, 1998; Van de Ven, 1998) and the question therefore remains how to implement this.

The private sector desires to function in areas of core competency but there are frustrations due to perceived mistrust by Governments regarding its motivations (Bird et al, 2003). The private sector is highly sensitive to intervention by governments in the markets as already experienced in the case of Zambia (see Box 3). In many cases long delays have been experienced in importing grain where governments have been involved because they often face serious financial constraints to facilitate commercial food imports The delays present uncertainties and difficulties for the other participating players, like millers, farmers and other agencies to plan effectively because they do not know what competition is going to be provided by the government sector.

2. THE PRACTICALITIES OF TRADING ACROSS BORDERS

It has been reported widely in the literature that policies adopted at the country level have had region-wide implications. Government restrictions on the import and export of maize including in response to GMO issues, lack of market information and infrastructural limitations tend to prevent free trade of maize within the SADC region. In addition, the SADC region is far from achieving common policies in agricultural trade. Import arrangements vary across SADC countries, with some countries imposing severe quantitative and policy-related restrictions, while others rely on the public sector entirely for their food imports. In a few cases, a combination of the private sector and the public sector is relied upon for cereal imports (FEWS, 2001; WFP, 2002). Financial and logistical capacity for some countries has remained a constant problem hindering the ability to fully execute cereal import plans, in addition to the wider problem of limited transport capacity in the SADC region as a whole. Timely delivery of the required cereal to meet the gaps has therefore not been achieved.

In a study by RATES (2003b) on maize trade policy, it was highlighted that the main effect of restrictive trade regulations and policies has been to encourage informal cross border trade. FEWS NET and WFP (2005) have reported that this trade is substantial. The lack of information of its extent makes the forecasting of official import requirements more difficult but this can be regarded as a minor invitant compared to the advantages of such trade. In addition, RATES (2003b) have also pointed out that the risks associated with restrictive trade have discouraged private sector investment in the maize value chain for Malawi, Zambia and Zimbabwe. Several researchers have identified a number of impediments to trade and these are presented in Box 2.

Box 2: Impediments to Regional Trade

SARPN (2004) outlines the following list of impediments to regional trade in foodstuffs, as presented by several researchers:

- Cost of transport that could reasonably be reduced by investment in improved and rehabilitated roads, railways, bridges, ports and other transport infrastructure;
- Lack of information available to traders on trading opportunities, coupled with inadequate telecommunications;
- Lack of credit and uncertainty about being paid for supplies by trading partners in other countries with imperfect banking systems, contract law, and restrictive foreign exchange rules. In some cases exchange rate volatility may introduce uncertainty into deals;
- Too little capacity in storage and transport;
- Border delays arising both from lack of capacity (staffing, opening hours, etc.), as well as from cumbersome procedures;
- Trade policy and practice – tariffs, bans and quotas, customs charges, bribes, complex documentation, standards and technical regulations, rules of origin;
- Market failures including those of co-ordination and imperfect competition; and
- Fears of arbitrary action by governments, including offloading reserves onto domestic markets when prices are not high and bans on moving grains that may wreck opportunities for profitable trade. In Swaziland and Zimbabwe state enterprises control the maize trade outright.

Generally, export policies in Malawi, Zambia and Zimbabwe are driven by concerns about food security. The trade barriers that exist have impacted negatively on the effective delivery of food and grain across borders and, hence, on food security. Road tolls, importation and customs procedures among others need to be dealt with to ensure smooth delivery of commercial as well as food aid supplies.

3. REVIEW OF THE CURRENT SITUATION

This review has attempted to provide an insight into the policies, infrastructural constraints, operation of food security reserves and the role of the private sector as regards their participation in addressing food emergencies and vulnerabilities. Some highlights with regard to grain trade in Malawi, Zambia and Zimbabwe are presented below:

Malawi	Zambia	Zimbabwe
• *Maize imports unrestricted but private sector finds it difficult to compete with Government that is the main formal importer.* • *Liberalized import and export licensing system*	• *Assertions of adequate maize supplies when market signals show deficit* • *Government is involved as a direct purchaserand imorter of maize through FRA*	• *Arrangements with GMB* - *all maize deliveries to GMB* - *all imports to GMB* - *maize grown on contract must go to GMB* • *Extremely optimistic forecasts* • *Informal trade at 3 times the recorded figures* • *Need for permit to use your own maize* • *Aid agencies banned from distributing food* • *Private traders charged VAT on maize imports but the GMB is not charged*

3.1 What policies have been adopted in recent years in the Southern African region that have acted as a disincentive for grain traders to trade within the region or import from outside?

The major actors in the grain trade across Southern Africa generally comprise the governments and their agencies, donors, NGOs, the informal private sector and the formal private sector. The formal private sector mainly consists of large-scale private traders and millers. The informal private sector is made up of small-scale traders in cross-border activities. The import potential of the informal private sector has been largely underestimated as most of the information gathered had been based on a few large-scale traders. Informal cross-border trading is sometimes characterized by breaking of bulk to disguise large commercial maize imports, either where such imports are illegal, or to avoid tax. Whilst attempts have been made to promote private sector activities, some policies and laws governing grain trade are not favorable for their smooth running. A number of policy directives restrict the private sector from performing marketing functions. Whiteside et al (2003) outline the general disincentives to trading that include: maize export bans, high cost of cross-border vehicle movement, inappropriate phyto-sanitary controls and unnecessarily centralized and complex documentation. Import/export bans have the effect of reducing trade volumes. Changes in import/export procedures, involving tightening of documentation like phyto-sanitary certificates, produce the same effect.

Some of the policies adopted by governments in Southern Africa in recent years have acted as a disincentive for grain traders to trade within the region or import from outside. FEWS and WFP (2005) identified the slow pace of formal imports as being common to the three countries, Malawi, Zambia and Zimbabwe. As a result pressure is exerted on food markets, with subsequent rises in prices. A list of some of the policies adopted in Malawi, Zambia and Zimbabwe is presented in Table 1. Maize import permits are required for all three countries and this presents uncertainties to the private sector. Zambia and Malawi from time to time control trade in foodstuffs through permits and outright prohibitions (SARPN, 2004). Maize export bans distort market prices and the experience has been that export bans are introduced without sufficient notice, further discouraging private sector trading (RATES, 2003b).

Table 1: Selection of Policies Adopted in Malawi, Zambia and Zimbabwe in Recent Years.

Policy	Malawi	Zambia	Zimbabwe
Price Controls	ADMARC sets the price it will pay to farmers for their produce and Government intervenes to set retail prices below market levels.	Controls formal sector imports through issuing of import permits and charging duty on imported maize.	GMB continues to employ pan-territorial and pan-seasonal pricing.
Import/Export Controls	Government regulates trade of maize, banning exports entirely when maize shortages are perceived.	• Traders must apply for import licenses for maize. • Government periodically bans imports and exports of maize.	Government retains exclusive monopoly over import and export of maize and in 2001 banned all private maize trade.
Subsidies	Subsidizes maize prices	In 2001/2002 Government through FRA imported 150000mt maize which was later sold to milling companies on condition that they sold their milled maize at agreed prices	Subsidizes maize prices

Compiled from various sources: Bird et al, 2003; Larson and Swire-Thompson, 1999; RATES, 2003a; RATES, 2003b; RATES 2003c

The absence of well-functioning domestic markets prevents the price and supply stabilization of market flows. The pricing policies adopted have led to price differentials between the public and the private sector. Policies regarding trade have hindered market-stabilizing private sector imports. Attempts to assist farmers by controlling imports often ultimately lead to price subsidies to control consumer prices. Governments generally do not appreciate that price stabilization can be achieved through the market and intervention has historically crowded out private sector trade and led to high marketing costs. The Governments of Malawi, Zambia and Zimbabwe have been subsidizing maize prices serving as a disincentive to private sector participation. In addition the large amounts of food aid also serve as a disincentive to private sector participation (WFP, 2002). Even if suppliers are designed for consumers with no purchasing power or coping strategy, such food aid often finds itself on the open market.

Malawi has a long history of government involvement in domestic maize markets and trade. The Government intervenes in the markets through the Agricultural Development and Marketing Corporation (ADMARC). Uncertain government policies and intentions to intervene have discouraged traders from engaging in imports. Private traders also are concerned with the inability of the Government to meet its contractual obligations and with the fact that payments may take up to six months from the time of supply (FAO, 2005).

In 2001, the Government banned the private sector from buying imported maize from the National Food Reserve Agency (NFRA), leaving ADMARC the sole agency authorized to sell imported maize. This action, according to a report by FAO (2002), was prompted by rising local maize prices that were regarded as the result of private traders' involvement in marketing. Policy inefficiencies continue to pose threats to the food security situation in Malawi. As a result there is low private sector investment in maize trade. Late tenders, foreign currency shortages and transport bottlenecks are cited as some of the factors that currently present difficulties for traders.

High nominal and real interest rates have acted as a disincentive for the private sector in Malawi to store maize, since it is unable to access credit to fund investment and working capital (RATES 2003c). The financial constraints, especially the high costs of borrowing, have therefore limited traders’ ability to handle large orders.

Zambia has had some policies in place that have been shown to discourage private sector full participation into grain trade. Box 3 illustrates this.

Box 3: Findings of Policies Discouraging Private Sector Participation in Zambia

- The import process is presently slow due to transport difficulties and phytosanitary requirements and some people believed that there would be insufficient food available in the country in February-March 2006.
- The import duty on maize had been five percent. Following requests for protection by the wheat sector the duty on imported wheat was raised to fifteen percent and the duty on maize increased to the same level, even though no pressure group had requested an increase in the maize duty. At the time the true nature of the deficit became apparent to the private sector it was not profitable to import from South Africa with duty at fifteen percent and, as a result, the Government was requested to lift the duty.
- Imports were initially delayed because the Government was not issuing import licenses. 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. When the matter was resolved the Government then introduced new SPS measures, which delayed imports for a further three weeks.
- Both imports and sales from the Food Reserve Agency are directed almost entirely at the large-scale milling sector so there is now virtually no maize available on the local market. The consequence is that local traders and hammer mill operators now have virtually no work.

Source: Shepherd (2005)

The Zambian Government maintains a certain presence on the market through influencing the operations of the strategic grain reserve held by the Food Reserve Agency and through imposing restrictions to exports in situations of national shortage. Additionally, there exists the requirement of the Ministry of Agriculture in Zambia of quality certification for all imports. Imports are subject to tariffs. Duties on maize are occasionally waived to encourage imports (Caballero, 1998). RATES (2003b) have illustrated how government policy intervention in the 2001/2002 marketing season limited the private sector's ability to source maize from the region because of domestic market pricing. In cases where the Government imported maize ranging from US$227 to US$290 per metric tonne, the grain was distributed to participating millers at about US$180 per metric tonne. The difference in prices would then be covered through subsidies. This scenario obviously means that the millers would buy the subsidized grain instead of market-priced grain imported through other private sector participants. In 2002 the Zambian Government contracted the private sector to import 200 000 tones of maize but the private sector reneged on its contracts due to fears of collapse of the markets when the Government announced its intention to import 300 000 tones of maize (Brew et al, 2003 in Bird et al 2003).

The situation in Zambia concerning private sector participation as reported by Shepherd (2005) and FEWS NET (2005) for August 2005 is presented in Boxes 3 and 4 respectively. It is reported that the private sector was not participating in the importation of grain trade due to the import duty in place amid fears that both Government and private sector acknowledged that maize imports were inevitable. The import duty discouraging private sector participation in imports has however been lifted (see Box 4) as the private sector was given permission to import maize (Zambia Food Security Watch, 2005; FEWS and WFP, 2005). Shepherd (2005) notes that as a consequence delays to commercial imports have created major problems. Both Zimbabwe and Malawi have much greater deficits than Zambia and all available transport was fully occupied. Transport rates were rising rapidly. Because of its proximity to South Africa and consequent faster turnaround time, truckers and the railways have a preference for delivering to Zimbabwe.

Box 4: Import Duty Discourages Private Sector Participation in Grain Trade in Zambia

The private sector and Food Reserve Agency (FRA) have estimated maize import needs of up to 186,000 MT between August and March, based on estimated stocks in country. Although the government has allowed the private sector to import up to 200,000 MT of commercial maize, the import duty still in effect discourages imports.

The maize supply situation in the country remains precarious four months into the 2005/06 marketing season, as a result of reduced production following the partial drought that affected two thirds of the country. The private sector has so far been reluctant to enter into any maize import arrangements while the import duty is in effect, due to uncertainty over the government's intentions to lift the duty later in the season. The government's reluctance to lift the import duty had been based on its belief that there was adequate grain in country to meet the production shortfall.

Source: FEWS NET, August 2005

Zimbabwe has a government trade monopoly in maize, maintaining direct prohibitions on imports and export such that the private sector is prevented from participating. The government has been unwilling to consider private sector involvement, out of fear that the private traders will fix prices. In Zimbabwe, marketing of maize was decontrolled for six years, during which the private sector was allowed to trade maize locally and externally as well as buy direct from farmers (RATES, 2003a).

The re-introduction of the GMB monopoly in 2001 forced out private sector players from the market (FEWS and UN, 2002; RATES, 2003a). Following the ban, applications for private importation were only allowed with exemption given by the

GMB, following scrutiny by an inter-ministerial technical committee, which decides whether to grant a licence to import (FEWS and UN, 2002). In February 2003, the Government introduced a number of measures to ease the restriction on food imports by the private sector, including increasing the quantity of food individuals can import without a permit and duty-free importation of maize and wheat by licensed traders.

The Government of Zimbabwe has recently agreed to free monopolistic grain trading to allow private traders to import maize and wheat (see Box 5). However, there are restrictions that still exist which include a ban on reselling the cereals, and price controls on refined products. Allowing the private sector to participate in grain trade is intended to increase imports yet an increase in imports by private traders in Zimbabwe may be limited by the existing restrictions (Mano et al, 2003: FEWS NET, 2002b in Tschirley et al, 2004: Caballero, 1998: Relief web, 2005a). The situation is also aggravated by the obligation to first deliver all maize to GMB warehouses. Whilst this action may be an acknowledgement that the Government is unable to import sufficient maize to offset widespread food shortages, the Minister of Finance announced that the measure is temporary. Policies of this nature do not help to involve the private sector because the private sector remains uncertain and is not guaranteed of competitive and continuous markets.

Controlled food prices in Zimbabwe continue to dampen serious interest by the private sector in importing food. There have also been cases of imported maize being impounded by customs officials. (AFP, 2002)

Box 5: *Private Sector Allowed to Import Maize and Wheat in Zimbabwe*
So far, Zimbabwe's planned imports from South Africa have been averaging nearly 80,000 MT per month, with a total of 454,000 MT imported since April 30, 2005. This level of imports is surprising given Zimbabwe's lack of foreign exchange, and still fails to meet consumption requirements and facilitate food access for most households. Imports must be increased to approximately 120,000 MT a month between now and June 2006 to ensure that minimal national requirements are met. The government has recently agreed to allow private traders to import maize and wheat, which could increase imports, but other restrictions, including a ban on reselling the cereals, and price controls on refined products, may limit any increase in imports by private traders in Zimbabwe.

Source: Relief web, October 2005

Currently in Zimbabwe, insufficient foreign currency reserves as well as the anomalies in the exchange rate pose serious difficulties for filling the cereal gap. The United Nations Relief and Recovery Unit (RRU) in 2002 reported that Government of Zimbabwe's foreign currency shortage severely curtailed GMB's ability to import the volume of cereals needed to feed the entire country in that year. Foreign currency control regulations in Zimbabwe have posed a great challenge to the private sector, which cannot remain competitive under a managed foreign currency regime. Robertson Economic Information Services (2004) reported that sellers and buyers in Zimbabwe had been dissatisfied with the foreign currency auction system in place and were unable to withdraw the needed foreign currency to fund their activities. An example of the effects of foreign currency shortages on millers in Zimbabwe is presented in Box 6.

The WFP reports that the food availability crisis is largely due to a combination of the Grain Marketing Board’s monopoly on grain imports, grain retail price controls and grain movement restrictions, that have effectively eliminated incentives to move grain stocks to markets. Suggestions have been made to the effect that private sector imports would require the removal of the GMB monopoly on the import of maize, maize meal and wheat, the removal of Government price controls to allow these products to be sold at prices reflecting the import cost, and removal of all restrictions on grain movement inside the country (WFP, 2005).

Box 6: Millers fail to buy wheat

AT least 20 000 metric tones of wheat being kept at local silos could be re-exported elsewhere after major players in the milling industry failed to raise the foreign currency needed to pay for the consignment.

Three of the country's largest millers-Blue Ribbon, National Foods and Victoria Foods-were to receive the imported wheat, but the companies failed to raise enough foreign currency to pay the suppliers owing to the biting foreign exchange crunch that has also seen official fuel supplies drying up.

Source: Financial Gazette, September 2005

3.2 What infrastructural constraints are faced by the private sector in importing and marketing foodstuffs and how adequately have government policies addressed these constraints?

The private sector faces logistical and administrative constraints with regard to the infrastructure needed in importing and marketing foodstuffs. Different types of traders face different sets of infrastructural problems. Given the policy risks associated with grain trading, the private sector has been discouraged from investing in storage and marketing infrastructure and has had to rely on the existing infrastructure, which is either inadequate or in a poor state. RATES (2003c) report that poor road infrastructure and costly and inefficient communication systems increase costs for maize traders, ultimately discouraging their participation.

Transport is usually the largest part of marketing costs and is a major cost in the sub-region mainly due to poor road infrastructure. Large-scale, formal trading companies are concerned over transport costs – specifically the inability in some parts of the region to use the existing railways and the corresponding opportunity to use bulk handling, the uncertainties of being paid (at all, or at least on time) by partners, and the problems of arbitrary government action. There is a general deterioration and decline in infrastructure, particularly railroads, as well as the congestion of ports[1] and

[1] Long-standing weaknesses in transportation infrastructure across the region hampered timely delivery of food aid where it was needed. Much of the transportation infrastructure (including ports,

this has presented difficulties in transporting both commercial and food aid imports and exports. The commercial routes being used for trade are focused mainly on South Africa and these experience congestion from time to time. Railways were experiencing major difficulties even before the latest drought and as a result there are also delivery problems of food from the region. Flooding has washed away some railway lines and roads, and there has been congestion on road and rail routes. Ports and railways in the region have been partly privatized and there is concern about the capacity of the private sector to move the large volumes required. The system is viable, but needs assistance from donors and international organizations (Relief web, 2002; Christian Aid website). Transportation bottlenecks, including rail wagon availability and high fuel costs are also restricting the pace and volume of exports from South Africa where most SADC states have been obtaining their maize import requirements (FEW, 2005a). These constraints have been exacerbated by late decisions to import by governments, donors and private sector alike, thus leading to major congestion when supplies are most needed, i.e. towards the end of the consumption year.

At the regional level, the lack of marketing information makes it difficult for individual trade actors and countries to adjust their reserve stockholding operations and to seize import and export opportunities. This particularly affects smaller and less qualified trading actors compared to the large-scale, formal trading companies who have networks of personal contacts. Information needs include improved food balance sheets, household budget shares and cross-price elasticities and substitutability of demand among staples, improved market price information, data on the incidence of different household coping mechanisms, and household income shares and an assessment of the likely impact of the crisis on the level of income from each source (Caballero, 1998; WFP, 2002; SARPN, 2004; Bata et al, 2005; Tschirley et al, 2004; Tschirley et al, 2005; Shepherd, 2005)

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railways, and roads) had deteriorated since the 1991/92 drought. For example, the port of Maputo, which is ideally situated for moving food commodities to landlocked countries, such as Swaziland and Zimbabwe, cannot be used optimally because of the lack of adequate port warehouse and storage facilities. However, even when ports are full, there is a limit to the amount of food that can be transported over land to landlocked countries, like Zambia, due to rail and trucking capacity and other logistical considerations (GAO, 2003).

In Zimbabwe following the drought in 2002, concerns were expressed over the capacity and viability of the transport network to support large-scale humanitarian assistance program and quick distribution of food and grain (WFP, 2002). A DFID Regional Hunger and Vulnerability scoping study by SARPN in 2004 stated that trade in foodstuffs in the region faced obstacles of high cost of transporting bulky foodstuffs across a large area without cheap river transport. This is currently exacerbated by the parlous state of the railways, a means of transport that, for bulk loads over long distances, costs potentially about half that of road haulage. Shepherd (2005) also reports that in Zambia the import process in late 2005 was slow due to transport difficulties and phytosanitary requirements that led some people to believe that there would be insufficient food available in February-March 2006. In Malawi it has been reported that due to tenders that are usually issued at short notice, inadequate time is allowed to supply the tender leading to overstretching of the transport capacity with detrimental effects if it coincides with the harvesting or planting when the demand for transport is high. The private sector in Malawi is also reported to have inadequate storage capacity and, in addition, some of the traders face difficulties in renting storage from ADMARC (FAO, 2005). Shepherd (2005) also reported some concerns regarding storage facilities in Zambia, presented in Box 7.

Box 7: Storage Facilities Concerns in Zambia

When it was set up FRA was mandated to manage all Government-owned stores and much of the warehousing space used by the private sector is rented from the Agency. There are suggestions that maintenance of at least part of this warehousing stock has been poor and that in a good harvest year storage facilities in the country would be inadequate. Traders interviewed indicated that they would like to invest in new stores but that banks were unprepared to make loans for more than three years, an unrealistic period for traders to repay. Some professionalism in grain handling has been introduced as a result of the founding of ZACA and the warehouse receipts programme. More needs to be done, either by identifying financing modalities for traders to construct stores or by the sale of Government stores to the private sector

Source: Shepherd, 2005

3.3 What has been the impact of the operation and management of food security reserves and/or government marketing boards on the ability of the private sector to supply commercial demand?

Tschirley et al, 2004 suggest that, operationally, governments need much more actively to facilitate market response during crises, turning to food aid only 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. It is noted also that Strategic Grain Reserves (SGRs) played no role in what has to be considered a successful response to the 2002/03 crisis. Yet SGRs are back on the policy agenda, despite the discouraging management record of such facilities in Africa.

Transparent management of SGRs is needed to prevent prices rising too high, while still remaining high enough to stimulate imports. Whiteside, 2003 reports that Malawi's SGR was not managed in a way that succeeded in stabilizing prices or covering costs. This is supported by Sahley (2005) et al, who note that there were disagreements over the purpose, management of and utilization of SGRs when ADMARC relinquished control of the SGRs to the National Food Reserve Agency (NFRA). Even a well-managed SGR will affect commercial temporal arbitrage possibilities, as an SGR has to rotate stock and should sell when expensive and buy when cheap.

Caballero, 1998 highlights that the consistency and timing of government interventions in the market undermines the participation of the private sector, especially when dealing with strategic food reserve releases which are usually in response to short-term social and political demands. It is widely reported for Malawi and Zimbabwe that the strategic grain reserves were mismanaged prior to the 2002/2003 drought. State intervention in these instances encouraged corruption and inefficiencies. Sahley *et al.* (2005) have given some details of what happened with the SGR in Malawi and this is outlined in Box 8.

Box 8: *Mismanagement of SGR in Malawi*
No grain was purchased in 2000/01 because it was believed that the bumper harvest of 2000 would be an adequate supply and that storage would be costly. Inaccurate Ministry of Agriculture data led to an overestimation of the domestic food supply, which combined with a lack of clarity regarding how much of the reserve remained, resulted in delays in the delivery of food assistance. From 175,000MT in July 2000, the stock ran out one year later.

In September 2001, the Anti-Corruption Bureau (ACB) logged a complaint that top UDF officials and cabinet ministers had bought SGR maize cheaply and resold it at high prices. These investigations found examples of serious conflicts of interest in contracting arrangements, possible evidence of personal enrichment and access by officials to NGR grain through unreimbursed loans, among other irregularities.

Source: Sahley *et al.*, 2005

3.4 What has been the role of the private sector in handling, storing, transporting and distributing imports carried out by WFP, donors or NGOs in the last five years?

Malawi, Zambia and Zimbabwe are landlocked countries and the costs of transportation are high. Due to infrastructural constraints experienced by the private sector, their role has been limited in handling, storing and distributing imports. In Malawi in 2001/2002 transportation of food aid from Extended Delivery Points (EDPs)[2] to final destination points were contracted to commercial transporters[3] in accordance with WFP practices (WFP, 2002a). FAO (2005) in their assessment in Malawi reported that generally due to the monopolistic warehousing market structure of parastatal agencies contractual flexibility is limited and costs remain high. It is also

[2] Food aid commodities are either purchased by WFP regionally or shipped to the region through one of five ports of entry: Beira, Nacala, and Maputo in Mozambique; Durban in South Africa; or Dar es Salaam in Tanzania. From these points of entry, food is transported by truck or rail to intermediate storage facilities, or transshipment points, which are strategically located in various districts within the country to streamline the flow of deliveries. From these strategic locations, food is then transported to extended delivery points--storage facilities generally located at the district level--from which the food aid allocations for each final distribution site are dispatched. WFP manages this process, including transporting the food to the extended delivery points. Wherever possible, nongovernmental organizations that are designated as the implementing partners are responsible for the secondary transport of food from the extended delivery points to the final distribution points (GAO, 2003 available at http://www.gao.gov).

[3] The secondary transport capacity in Malawi is very limited in terms of small trucks required to deliver relief supplies to the rural remote areas. This is a serious problem, particularly during the rainy season when these areas become inaccessible to commercial transporters. The WFP/IFRC TSP truck fleet plays a vital role in covering the areas where commercial transporters cannot access (FAO, 2005).

pointed out that WFP has an agreement with other UN agencies to provide warehouse services.

Restrictions on third-party transport arrangements exist with regards to the distribution of food aid. The private sector played a role in the milling and storage of maize meal during the 2002/2003 drought when the Government of Zimbabwe required maize to be milled before distribution because of the GMO issue. During the drought in 2002/2003, the Financial Gazette (2002) pointed out that port and railway officials in South Africa said they had the capacity to handle and move all humanitarian aid destined for southern Africa but said bureaucracy and improper planning between aid agencies, customs and transporters had hindered their work

4. RECOMMENDATIONS

In general, effective and consistent liberalized domestic marketing policies are required as well as increased resources. Cross-border trade facilitation through the removal and simplification of the complex trade restrictions affecting the region is needed. Above all there is a need to encourage openness and information sharing both at national and regional levels, involving all stakeholders. Transport and storage infrastructure remains an issue of international magnitude if the private sector is to play a meaningful role in food trade.

It is recommended that the following should be considered to facilitate the role of the private sector in food emergencies:

1. **Government policy**

There is an urgent need for a policy review and a clear policy statement by all governments to open up private sector participation in food marketing at the domestic level on a long-term basis, remove the constraints and obstacles noted above and create a conducive environment for regular policy dialogue between government and the private sector**.**

2. **Trade facilitation**

What is needed is a customs service that facilitates legal trade, rather than the all-too-frequent pattern of using trade legalities to hinder open commercial trade leading to its informalization. There is sufficient evidence to show that trade liberalization policy enables private sector imports to stabilize cereal prices and address food insecurity.

3. **Public-private sector partnerships**

Strengthening co-ordination and co-operation on food logistics issues among transport operators, aid agencies, the private sector and national governments in the region is an absolute imperative. This process could be initiated through partnership processes involving signing Memoranda of Understanding and creating regular stakeholder discussion fora. A regional food reserve and trade information and financing facility has been suggested (SADC, WFP, NEPAD) that will deal with early warning systems and trade promotion, supported by a regional advisory board. The advisory board (comprised of government, traders, millers, researchers, donors, transporters, etc.) should deal with issues such as:

- Minimizing competition for resources between the private and public sectors in order to ensure effective ways for maximizing available financial and physical capacities;
- Address immediate policy constraints especially restrictions on trade and domestic marketing. In this regard there is need for clear internal processes or guidelines to determine appropriate actions/responses at the same time keeping open communication between the Government and the private sector, (e.g. through traders', millers' and transporters' associations);
- Facilitating more advanced planning and donor coordination to avoid logistical problems and promoting a more conducive policy environment; and
- Creating a regional network to provide market information and policy advice.

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