# Civil Society & Regional Food Security

**POLICY BRIEF NO. 6** **13 March 2006**

## Reforming maize markets and regional food security

*LOOK, LISTEN & LEARN: Promoting the use of CSOs' evidence in policies for food security*

*An action research project in southern Africa*

*Malawi*

*Zambia*

*Zimbabwe*

*Mozambique*

*Angola*

**Introduction**

There are major debates going on in SADC countries over the contribution that *national* grain (and especially maize) policies add to the problems of *regional* food insecurity by restricting production and marketing.

This Policy Brief is intended to encourage greater CSO involvement in these debates and show that local evidence on the impact of national maize price and market policies can help to inform what is a very complex issue for most governments confronted with immediate challenges of widespread hunger in their own countries and demands to address long term strategies for the region as a whole.

**Technocrats vs Politicians?**

The debate over the need for a regional approach to maize market reforms is sometimes characterised as technocrats (with theoretical attachments to long term structural change) versus politicians (faced by short-term problems of crisis management).

The technocratic argument is that if grain is allowed to flow more freely across the region's borders, and private traders and millers are allowed to operate with less restriction, or even more predictability over the application of restrictions, this will provide more incentives for production, prices will stabilise and chronic food insecurity will be much less than now.

Some politicians say that this may well be true in the long run but, meanwhile, it is their responsibility to ensure people have food available and can afford to buy it. This responsibility, they claim, means that there will be times when they must ban exports of food, or impose tariffs on imports to allow local producers to compete, and they must have the capacity to 'correct' the market by buying and distributing food directly in times when prices rise or there are shortfalls in supply.

**What are the arguments?**

There are broadly four arguments in favour of market liberalisation advocated by technocrats, including many in government service and international agencies.

**1. Government intervention is harmful**

There are arguments that where governments are directly involved in importing and distributing grain, subsidising prices in the face of public unrest, fears of unpopularity or unpredictably revised import tariffs or ban exports, private traders are unwilling to risk buying and selling. This is because they cannot predict the impact of government intervention on market prices.

The result is that, in times of domestic deficits there is limited import of grain by private traders to meet increased local demand. This leaves government agencies to meet import requirements – which is often a case of too little or too late, and the beginnings of a major food crisis.

**2. Trade is unnecessarily restricted**

The general argument is that food security is increased when restrictions on imports are eased and border transactions become less costly and cumbersome. It is clear from the Mozambique experience that removing import duties on South African imports has increased food availability and reduced the prices of food grains; Zambia has now also removed duties on 'non-COMESA' (ie South African) imports with similar beneficial results for consumers expected.

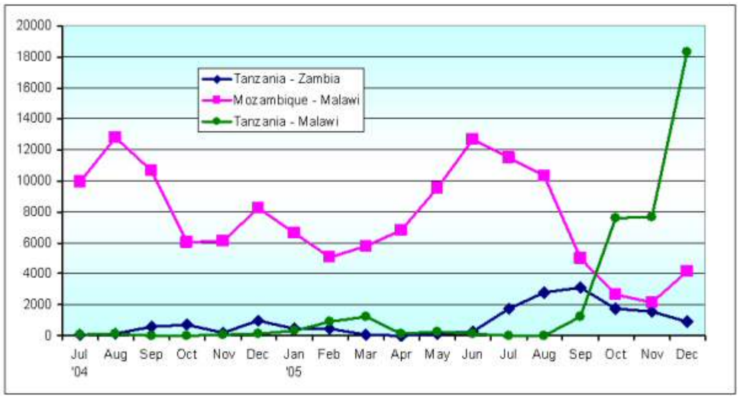
There is also evidence that the relatively free 'informal ' movement of maize between northern Mozambique and Malawi has meant large volumes have moved quickly in response to shortfalls experienced in Malawi (see Table below).

Trade restrictions are also held to disadvantage the informal marketing and processing that produces the lower cost maize bought by both urban and rural poor in countries such Zambia and Malawi. The more expensive refined and packaged maize meal produced by large millers for supermarkets tends to be the only maize available as supplies from the informal sector run out, forcing up the price for the poor. This is because it is the larger operators that can purchase maize from elsewhere in the region as they, unlike the smaller millers and traders, benefit from government licensing and state procurement.

**3. Food aid inhibits market development**

The argument against food aid is that it has the potential to depress local production and inhibit private markets. What is required, say the critics, is that governments that need

**Table:** Volume of Informal Cross-Border Trade in Maize between Malawi, Mozambique, Tanzania, and Zambia: July 2004 - December 2005 (MT)




Source: FEWS NET Malawi and Independent Management Consulting Services - Zambia

emergency imports of maize should be provided with the foreign exchange to allow normal commercial imports to make maize widely available at market related prices.

Where even these prices are beyond the poor, cash grants (or food coupons or wages for public works) should be provided so that there is purchasing power within poor communities that encourages normal trade in food.

The direct supply of food aid then becomes only a last resort when certain areas or groups simply cannot be assisted by relying upon markets to provide affordable food**.**

**4. Markets can help in risk management**

The risks that are due to drought and subsequent price volatility are generally agreed to be a disincentive to maize production in the region. For this reason, many governments have offered price support over the years.

In South Africa, there were fears that the removal of government price support to maize farmers in the mid 1990s would lead to production declines. In fact, the introduction of a Chicago-style grain exchange on the Johannesburg Stock Exchange greatly reduced price risks to farmers. Under the new maize commodity market, large traders (or brokers) are prepared to buy maize 'contracts' in advance of harvest (the so-called 'futures' market) for future selling. In this way the individual farmer passes the price risk to international commodity traders whose business it is to speculate on future supply and demand.

There are a number of contractual, financing and infrastructure constraints to be overcome before farmers throughout the region could benefit from participation in such markets.

However, the most important constraint is that commodity traders feel they cannot discount the possibility of governments suddenly intervening in markets in ways that make it impossible to calculate future prices. While there is uncertainty over government intentions, there is little prospect of market-based risk management for food crops in the region as a whole.

**The counter arguments**

The arguments against maize market liberalisation within individual SADC countries are twofold.

First, there are fears that liberalisation would lead to domination by big traders and millers (with South African companies dominating regional food trade even more than now). The argument is that, in many countries, protection is needed for local farmers because their production is held back by limited technology and weak market structures. It is these fears that have led the Mozambique government to remove VAT on domestically-produced maize to allow farmers to compete with imports.

Second, the argument is that at current low levels of income and rural market activity in much of the region, a market-led approach to food security will simply mean greater vulnerability. This is because local merchants are unwilling to operate in poorer areas and, where they do, they will establish local monopolies that exploit producers and buyers of maize.

**The role of CSOs**

While most of these broad arguments over the benefits of liberalisation remain unresolved, the process of deregulation is underway across the region. Although it takes different forms in different countries, it is invariably a complex and piecemeal process with any number of unintended consequences.

Some of the more academic, or research-oriented, CSOs already engage in the argument and present evidence. In particular, FANRPAN (with support from Michigan State University) has been working for over a year with agriculture ministries in Zambia, Mozambique, Malawi and South Africa to promote improved maize marketing in the region**.**

But more CSOs need to become involved in the process of assembling evidence on the impact of domestic market reforms, of changes in donor policies on food aid, and on developments in both formal and informal regional trade. There are arguments over the pace, nature and direction of liberalisation that will be around for some time yet and CSOs should have a great deal to contribute to the arguments, especially in relation to the poorest in rural areas.



*Look, Listen and Learn is a joint project between*

*Southern African Regional Poverty Network*
*www.sarpn.org*
*Overseas Development Institute*
*www.odi.org.uk*
*Food and Natural Resources Policy Analysis Network*
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