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## *SUCCESSES AND CHALLENGES OF FOOD MARKET REFORM: EXPERIENCES FROM KENYA, MOZAMBIQUE, ZAMBIA, AND ZIMBABWE*

By

David Tschirley, T.S. Jayne, Mulinge Mukumbu, Munhamo Chisvo, Michael T. Weber, Ballard Zulu, Robert Johansson, Paula Santos, and David Soroko

Food Security II Cooperative Agreement between U.S. Agency for International Development, Global Bureau, Economic Growth Center, Office of Agriculture and Food Security and Department of Agricultural Economics, Michigan State University

**BACKGROUND:** Governments in Eastern and Southern Africa have transformed their food economies over the past decade. Despite much evidence showing the impressive achievements of food market reforms, the reforms have created acute political dilemmas for governments amidst protests by powerful groups who perceive their interests to be threatened by the reforms. As a result, policymakers have faced difficult decisions in defining a consistent and effective role for the state in the newly emerging food marketing systems.

A key feature of each of these challenges is the need for a better understanding of how to stimulate private investment in the food system; this understanding may be critical to avoid situations in which perceptions that "the private sector will not respond" become a self-fulfilling prophecy.

**OBJECTIVES AND METHODS:** This paper describes the different courses of food policy reform pursued in recent years by four countries in Eastern and Southern Africa, and documents their differential effects on farmer and consumer behavior. Results are based primarily on a survey and synthesis of recent analysis. The paper highlights lessons learned and thus provides insights into the costs and benefits of alternative strategies for promoting national food security and enhancing producer and consumer options.

**FINDINGS:** Maize during the post-independence period became the cornerstone of a "social contract" between governments and the African majority, in which the controlled marketing systems inherited by the new governments at independence were viewed as the ideal vehicle to redress the historical neglect of smallholder agriculture and at the same time ensure cheap food for the urban population. While this approach achieved uneven success in promoting smallholder incomes and consumer welfare, one result in all cases was an unsustainable drain on the treasury and resulting macroeconomic instability[1]. This instability culminated in structural adjustment programs being implemented in each country.

It is this fiscal crisis and pressure from international lenders, more than local commitment to the process, that have been the principal driving forces behind food market reform. As a result, each country has, to varying degrees, suffered from policy reversals and inconsistent and unclear policy directives. The difficulty of competing with government subsidies, and the uncertainty about what government policy will be, have created a situation where the common perception that "the private sector won't respond" to liberalization threatens to become a self-fulfilling prophecy.

One area where the private sector has responded vigorously to reform is in informal marketing and small-scale milling, with important implications for consumption by low-income consumers. Due to lower unit processing costs, retail prices of whole meal are typically 60% to 75% of refined meals. Poor consumers respond to these lower prices; by 1994 whole meal accounted for 40%-60% of urban meal consumption in Zimbabwe, Kenya, and Zambia (Jayne et al. 1995). The increased availability of whole meal at these reduced prices has largely offset the adverse effect of eliminating consumer subsidies on roller meal. Similar benefits have been achieved in rural grain-deficit areas that were formerly dependent on refined meal.

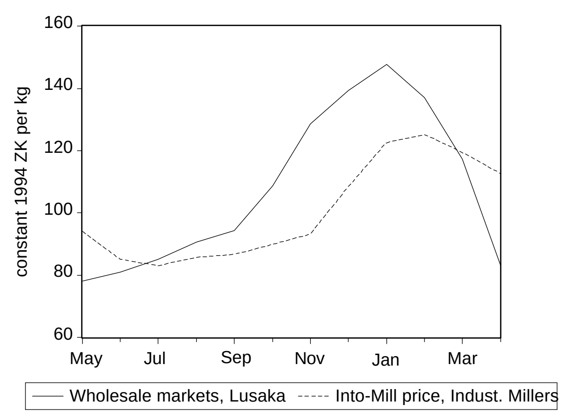
The next sub-sections briefly review the maize system reform experiences of Zambia, Kenya, Mozambique and Zimbabwe, highlighting key lessons and challenges for each.

**ZAMBIA**: Zambia has made major strides moving from a state-led to a market-oriented food economy. The maize marketing board was abolished in the early 1990s, and the milling industry was privatized in 1995. Multinational firms are now active in maize and fertilizer marketing in smallholder areas, and controls on private maize importation have been relaxed.

Zambia needs to import maize during most years. Political and economic stability are tied to ensuring adequate supplies at tolerable prices in urban and mining areas. This fact, and lack of government confidence that the private sector would adequately respond to the challenge, have lead to government actions making it more difficult for the private sector to play a positive role in ensuring food security for consumers. In 1995 the government established the Food Reserve Agency (FRA), officially charged with holding strategic grain reserves. In practice, FRA has also subsidized industrial-milled meal by making subsidized maize available to selected industrial millers. In so doing, the government has disadvantaged the small-scale millers who had been the most vigorous in responding to the liberalized policy environment. FRA has also imported maize and sold it on local markets, sometimes at below market prices. These operations create great uncertainty for private traders regarding the FRA sales price and its ability to effect the needed imports. Foreign exchange shortages also limit the amount of grain local millers and traders can import, while conveying advantages to international firms with ready access to foreign exchange. These are clear cases where government actions threaten to lead to the self-fulfilling prophecy that "the private sector will not respond."

One result of these policies is that consumers pay more for maize meal than they otherwise would. Figure 1 shows seasonal maize grain prices in Lusaka in open wholesale markets, and at industrial mills for the period 1993-1998. In the harvest and early post-harvest period, maize is readily available and prices in open markets are substantially below those in industrial mills.

**Figure 1. Seasonal Average Maize Grain Prices in Zambia, Wholesale Markets vs. Into-Mill Prices for Industrial Millers, 1993-1998**



Later in the season, supplies in these markets dwindle, while millers gain access to imported and FRA supplies, the latter frequently subsidized. As a result, open market prices exceed into-mill prices later in the season. The higher prices and reduced availability of maize on local markets results in real losses for consumers: estimated expenditures on maize meal by urban consumers would decline by roughly 11%, or US$12 million annually, if imported maize grain and buffer stocks were released onto public markets instead of being channeled to selected millers.[2]

**KENYA**: Like Zambia, Kenya has transformed its maize marketing system over the past decade, with one crucial difference: the private sector now handles all maize grain imports. Thus, Kenya has eliminated the primary source of policy uncertainty and private sector disincentive that continues to negatively affect the Zambian food system.[3]

Kenya has very high proportions of net buyers in rural areas, 61% nationally and over 80% in some areas. Not surprisingly, in a national survey conducted in 1997, most rural households stated a preference for low rather than high grain prices, and this preference was stronger among net buyers of maize. About 60% of households surveyed felt that the availability of maize grain for purchase had improved since the transition to a liberalized system, and majorities in every area felt that it had become easier to sell grain under the current system. Overall, 61% of respondents said that they preferred the current liberalized system to the previous system of greater state control.

Due perhaps to this widespread satisfaction with the results of market reform, the Kenyan government has made few policy reversals. The one exception is external trade: import tariffs on maize were introduced in 1996. Though meant to protect producers, the high proportion of net maize buyers in rural areas suggests that most rural households will be disadvantaged by these tariffs; urban consumers will clearly suffer from reduced purchasing power. Recent research has indicated that the maize market reforms have reduced expenditures on maize meal by roughly US$10 million per year by Nairobi consumers alone, by raising their access to low-cost grain for milling (Argwings-Kodhek and Jayne 1997). Rural net buyers have also benefitted. The savings for both these groups would be still greater in the absence of the current import tariffs.

**MOZAMBIQUE**: Liberalization of Mozambique's economy began earlier than it did in Zambia, Zimbabwe and Kenya, and in many respects has been more complete. Mozambique currently has no price controls on maize, the government plays no role in domestic marketing, and imports and exports are handled entirely by the private sector.[4] Two key positive results have emerged from this aggressive liberalization.

First, Mozambique has probably the most regular availability of maize grain and whole meals of any country in the region, thanks tothe rapid emergence of the informal marketing and small-scale milling sectors. Table 1 shows that in the country's three principal cities, maize grain and whole meal have been nearly constantly available in local markets since January 1993. By purchasing grain and having it milled, urban consumers in producing areas of the country enjoy whole meal prices ($190/ton in Beira, $150/ton in Nampula) among the lowest in the region, while prices in the capital Maputo lie between those in Kenya and Zambia ($250/ton in Maputo between 1993 and 1998, compared to $272 in Kenya and $204 in Zambia).

The second positive effect of Mozambique's liberalization is price stabilization in the South

**Table 1. Percent of Weeks Available and Mean Prices of Maize Grain and Meals in Three Urban Markets of Mozambique, 1/93-9/98**

| | **Maputo** | | **Beira** | | **Nampula** | |
|---|---|---|---|---|---|---|
| **Staple** | % of wks avail. | Mean price (US$ /kg) | % of wks avail. | Mean price (US$ /kg) | % of wks avail. | Mean price (US$ /kg) |
| Maize grain | 100 | 0.23 | 99 | 0.16 | 99 | 0.12 |
| Refined meal, imported | 89 | 0.47 | 5 | 0.65 | 1 | 0.38 |
| Refined meal, domestic | 49 | 0.42 | 8 | 0.42 | 1 | 0.33 |
| Whole meal, market price | 89 | 0.32 | 95 | 0.35 | 100 | 0.28 |
| Whole meal, derived price[1] | 100 | 0.25 | 99 | 0.19 | 99 | 0.15 |

[1] Price of maize grain plus milling charges. "Percent of

through regional trade. Maputo has for at least 10 years imported grain and meal from South Africa and Swaziland to complement the supplies it receives from the Center and North of the country. No other city in the country has relied on trade as has Maputo. Between 1994 and 1998, the coefficient of variation of retail prices in Maputo was approximately one-half that in other cities of the country; mean seasonal price rises during this period in other cities ranged between 66% and 121%, compared to 36% in Maputo.[5]

Mozambique faces at least three continuing challenges to creating an efficient and low-cost maize production and marketing system. First, it would benefit from a more active role on the part of the national government in explaining and championing liberalization policies in the provinces; perceived ambivalence at the national level has at times created an environment in which local officials can actively hinder trade. Second, the North of the country, isolated by distance and poor roads from the country's major urban centers, needs to continue developing its export markets for maize as well as diversifying into high-value crops, if it is to realize its high production potential. Finally, the country must identify ways to encourage greater private sector investment in the system, to increase traders' scales of operation and reduce their unit costs.

**ZIMBABWE**: Zimbabwe presents a stark contrast to Mozambique, Kenya, and Zambia in its recent management of food security and consumer price instability. The Grain Marketing Board (GMB) remains a major player in the domestic trade, where it practices pan-territorial and pan-seasonal prices fixed by government, and is the sole legal importer and exporter of maize. Though private trade has been allowed since 1994, prices of maize meal have again come under government control.

Zimbabwe's policy approach has diverged most significantly from the other three countries since early 1998. At this time, government imposed price controls on maize grain and meal in the face of market price increases sparked by fears of production shortfalls during the 1997/98 El Nino. As a parastatal, GMB has been unable flexibly to adjust its pricing structure to rapidly changing market conditions. This situation is creating two serious problems. First, it leads to periodic large adjustments in the official marketing system, which have caused civil disruptions in the past. Second, the government has implicitly reintroduced subsidies on industrial roller meal. Winners in the market are being determined more by who can gain access to cheap GMB stocks than by who is most efficient; wholesale market prices of maize grain in Harare have averaged over 30% higher than the GMB selling price. Ironically, while the Government's return to price controls in 1998 was in response to perceptions of an oligopolistic industrial milling sector, the controls have weakened the position of their primary competitors – the small-scale milling sector – who must source grain at substantially higher market prices.

The probable effects of the reintroduction of controls on the price of roller meal are threefold. First, we anticipate an increase in the quantity of roller meal demanded and a decline in demand for grain through the informal trading and milling channels; this will reduce competition in the maize processing industry. Second, the subsidy will disproportionately benefit high-income consumers, who are the principal consumers of roller meal consumption. Third, the Government's budget deficit will increase. Thus, the major winners will be large-scale millers and high-income consumers, while the major losers will be small-scale millers, private traders, and the treasury.

**POLICY IMPLICATIONS:** Key implications of these findings are as follows.

**First, food market liberalization has generated more successes than generally recognized.** Examples of these successes are rapid entry into grain retailing and milling, greater availability of maize grain in rural grain deficit areas, and the rise of regional trade patterns, which is playing a critical role in promoting cost effective food systems in cases where this is allowed.

**Second, the private sector's response to liberalization is sensitive to a broader range of government actions than commonly understood.** Types of activities likely to impede overall private sector response to liberalization include (a) state importation and sale of maize at below-market prices to selected buyers; (b) subsidized commodity distribution schemes; (c) restrictions on private import or export; and (d) policy vacillation.

**Third, consumer vulnerability to price instability under liberalization has not been as severe as often portrayed.** Private investment in grain distribution, processing, and cross-border trade as a result of the reforms have expanded consumers' options and ability to stabilize expenditures on maize meal.

**Fourth, positive government actions to reduce market instability is needed and is beginning to work in selected cases.** These needed public sector investments include: (a) improving the transport infrastructure; (b) promotion of regional trade; (c) improved market information system; (d) improved communication infrastructure; (e) nurturing the development of market-oriented mechanisms (e.g., commodity exchanges) for handling price risk; and (f) alleviating the constraints on private access to foreign exchange. Importantly, these types of investments may reduce political risks associated with liberalized food markets, and thereby promote policy stability and consistency – key factors in promoting desirable private investment in the system.

1. For example, in the early 1990s, the deficits of Zimbabwe's Grain Marketing Board's were 5% of GDP (Jenkins 1997). By the late 1980s, Zambia's subsidies to the maize sector reached 17% of the government budget (Howard and Mungoma 1997).

2. These conclusions are based on simulation analysis in Jayne et al. 1995.

3. However, legislative rules have not been changed in Kenya, and scope exists for the state marketing board to resume importation in the future.

4. The marketing parastatal ICM has received only private financing since it began operating in 1996, and behaves as a private trader, paying and receiving market prices.

5. The other cities used in this calculation are Beira in the Center, Quelimane in the Center-North, and Nampula in the North. The analysis used US Dollar prices.

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