Macro-economic, Market and Procurement Mission Southern Africa

Mission Report: Zimbabwe, Zambia, Malawi and South Africa

Date: 18-29 July 2016

Acknowledgements: This report was prepared jointly by Arif Husain (Chief Economist and Deputy Director of Programme and Policy, Rome), Simon Denhere (Regional Procurement Officer, Nairobi), Andrew Odero (Regional VAM Advisor, Johannesburg), Raphael Leon (Commodity Specialist, Rome) and Susanna Sandström (Economist, Rome).

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Executive summary

Following El Niño and the failure of two consecutive rainy seasons, Southern Africa has experienced the worst drought in 35 years. WFP declared the activation of a Level 3 (highest level) emergency response for the impact of the El Niño-induced drought on the Southern Africa Region in June 2016.

Given high food insecurity, WFP urgently needed to update its analysis of the evolving situation in order to adjust operational response plans for the coming lean/hunger season. For this purpose a *Macro-economic, Market and Procurement Mission* took place to Malawi, South Africa, Zambia and Zimbabwe from 18-29 July 2016. The objective of the mission was to (1) understand national market intervention strategies, plans and capacities to ensure food availability until the next harvest; (2) understand the perspectives, plans, constraints and capacities of the private sector to deal with the situation; (3) seek feedback and collaboration from donors and multi-lateral institutions on the scope and scale of the food assistance implementation strategy; and (4) explore what market-based interventions would be most appropriate given different contexts in each country. In Malawi and Zimbabwe the mission focused on understanding the current food gaps. In Zambia and South Africa the intent was to assess their role as regional suppliers/exporters of maize.

The situation in Malawi and Zimbabwe is serious due to the cumulative impact of two poor harvests and sharply curtailed national response capacity. While Malawi's harvest was 32 percent lower than the five-year average, Zimbabwe's harvest was half of the five-year average. Both countries are experiencing depressed economic growth and financial constraints that have significantly weakened the response capacity. Distorted economic and trade policies, in the form of heavy subsidies and trade restrictions, and lack of clarity in government policies create rent seeking incentives. The resulting large informal trade creates information asymmetries along with increased uncertainty. While Zambia had a good harvest it also suffers from these distortions reducing the exportable surplus and increasing vulnerability.

The shortfalls in Malawi (800,000 MT) and Zimbabwe (1.2 million MT) mean that the two countries will require 2 million MT of maize. The gaps are to some extent balanced by large flows of informal trade, particularly in Malawi, but will also have to be covered by regional and international imports. In the region, Zambia's exportable surplus of 600,000 MT may not materialize to the extent expected due to lower opening stocks than foreseen, elections and informal trade. Internationally, there is a possibility to import about 1.7 million MT by or for the affected countries. South Africa is the key point of entry for those imports. Despite own harvest deficits, South Africa is quickly closing the gap through imports and will become important in reducing the regional deficits.

In both Malawi and Zimbabwe, the private sectors have in principle the capacity to alleviate food shortages but face important constraints. In Malawi, lack of clarity in government policies is the key constraint: the uncertainty as to whether ADMARC will offload maize at subsidized prices, is hampering private sector imports. In Zimbabwe, the main constraint is the unavailability of liquidity in the market and low credit availability.

The crisis in Malawi and Zimbabwe requires external support even if the governments would reach their import goals of 300,000 MT (Malawi) and 700,000 MT (Zimbabwe) of maize. The gap that the humanitarian sector has to cover might reach 1 million MT. This can be done by WFP or by the private sector supported by WFP. It is recommended that WFP works with the private sector to implement an "end-to-end supply chains" system for delivery of food assistance to the most vulnerable. Timing is of utmost importance not only to stabilize prices and minimize rent seeking opportunities created by the

informal trade but also because of lead-time, port and corridor congestions and in order to preposition food before the rainy season. In Zambia, WFP can play a leading role to minimize uncertainties currently experienced by the private traders in delivery of their export contracts due to national export bans on maize.

The mission identified urgent need for: 1) transparent information regarding cross-border trade monitoring; 2) quarterly updated food balance sheets; 3) implementation of Integrated Food Security Phase Classification (IPC) compatible nVAC assessments; 4) real-time price monitoring systems; and 5) completion of farmer registration programs.

Mission background, objectives and methodology

Following El Niño and the failure of two consecutive rainy seasons, Southern Africa has experienced the worst drought in 35 years. Significant harvest failures and a decrease in cultivated area has, according to cereal harvest assessments, resulted in a cereal shortfall of 9.3 million tonnes in the Southern African Development Community (SADC), with only 72 per cent of required cereals available in the region (excluding DRC, Madagascar, Mauritius, Seychelles and Tanzania). South Africa, usually the main producer of maize in the region, is expecting a maize harvest that is 29 percent less than in the 2015 season, which was also a drought year. Zambia is the only country currently forecasting a cereal surplus. High prices of maize, and food in general, sluggish economic performance in some countries and the depreciation of national currencies have also contributed to exacerbating the negative shocks this year.

Botswana, Lesotho, Malawi, Namibia, Swaziland and Zimbabwe have all declared a State of Emergency due to the ongoing drought. Additionally, all but one of South Africa's nine provinces, typically accounting for almost 90 per cent of the country's maize production, have been declared drought-disaster areas.

WFP declared the activation of a Level 3 (highest level) emergency response for the impact of the El Niño-induced drought on the Southern Africa Region in June. Preliminary results from the annual vulnerability assessments released by the Southern Africa Development Community (SADC) indicate that close to 40 million people across the region will be food insecure at the height of the lean season (January to March 2017). Of these, an estimated 23 million require emergency assistance. According to the Regional Action Plan for El Nino (RIASCO), prioritising seven affected countries (Angola, Lesotho, Madagascar, Malawi, Mozambique, Swaziland and Zimbabwe), 14.1 million people require immediate humanitarian assistance.

Given the high numbers of estimated food insecure, WFP urgently needed to update its analysis of the evolving situation in order to adjust response plans for the coming lean season. For this purpose a mission to Malawi, South Africa, Zambia and Zimbabwe took place in July 17-29 2016.[1]

The overall objective of the mission was to take stock of developments in the macro-economic situation in the region, with particular focus in the four countries and increase understanding of current and near-term regional/national staple food commodity stocks, flows and market signals. Specifically, the objective was to: (1) understand national government market intervention strategies, plans and capacities to ensure food availability until the next harvest; (2) understand the perspectives, plans, constraints and capacities of the private sector to deal with the situation; (3) consult with multi-lateral institutions to see how they plan to support governments and explore collaboration; and (4) explore what market-based interventions (including subsidies, supplier arrangements, cash-based transfers) could be deployed in the different contexts.

While the focus in Malawi and Zimbabwe was on their needs, the focus in Zambia and South Africa was to understand their capacity to supply the region with surplus maize. The mission relied on a combination of data analyses and stakeholder consultations. Consultations were made with

[1]The mission built on various analyses that were carried out in the first quarter of the year by RBJ (WFP Regional Supply Chain Assessment, March 2016), as well as the SADC and inter-agency plans being put in place (SADC Regional Humanitarian Appeal and Southern Africa Regional Interagency Standing Committee (RIASCO) Regional Plan of Action focused on the El Nino response).

government institutions, partners, donors and the private sector (The Annex provides details on the stakeholders met in each country).

The report starts by outlining the situation in each of the countries visited. Then a summary of the regional situation is provided along with possible intervention models. The report ends with analytical and operational recommendations.

Malawi

Background: A highly vulnerable country with a weak economy

Malawi is facing an increasing number of economic challenges. From an average of almost 5 percent over the preceding five years, real GDP growth is forecasted at 2.5 percent in 2016. Symptoms of a weakening economy include fiscal and monetary turbulence, inflationary pressures, high interest rates, high government's arrears, utility outages and a weak Kwacha. The core inflation stands at 23 percent and food inflation at 28 percent. Compared with an annual average of MK500 to US$1 in 2015, the Kwacha fell to an all-time low of MK749 to US$1 in February 2016. With some 40 percent of the budget spent on goods and services purchased in foreign currency, a weaker Kwacha increases costs and foreign debt servicing. The sharp decline in the local currency has been driven by foreign-exchange demand pressures and persistent current account deficits, estimated at 6 percent of GDP in 2015. Weak fiscal discipline is the most significant contributor to Malawi's macroeconomic instability, with the prospects for improvement remaining poor.[2]

The main sources of foreign exchange: foreign aid and tobacco has significantly contracted in recent years. The country is heavily reliant on donor support with over 40 percent of the national budget being financed by foreign aid, but the assistance has been severely reduced after several corruption scandals in the last years. The suspension of aid has intensified the fiscal pressures.

The deterioration of the economy has been exacerbated by weather shocks, most recently El Niño, as they have impacted on agricultural production. The contraction in agricultural production and reduced demand affect the wholesale, retail and manufacturing sectors.[3]

How bad is the cereal deficit?

While Malawi has been self-sufficient in maize production for several years, it has now experienced two years of consecutive deficits. The estimated production according to government figures is 2.4 million MT, 15 percent lower than last year's already bad harvest and 32 percent lower than the five year average (**Figure 1**). According to the national maize balance sheet, the total maize requirement is around 3.5 million MT, leaving a deficit of 1.1 million MT (**Table 1**). This total requirement includes human consumption, Strategic Grain Reserve (SGR) replenishments, feed use, seed use and losses. The gap between total consumption requirement of 3.2 million MT and total production stands at 800,000 MT. The deficit areas are mainly in the south of the country while the northern part is the least affected.

[2] World Bank (2015). Malawi Economic Monitor: Adjusting in Turbulent Times - Fact Sheet.
[3] ibid

The opportunities to produce significant stock through winter cropping appears to be limited. This is only possible for large farmers using irrigation but (1) competes with the wheat crop and (2) will be expensive since the price will be set given the opportunity cost of not producing sugar cane instead.

***Figure 1**: Maize production in Malawi, marketing season 2005/2006-2016/2017 ('000 Metric Tons)*

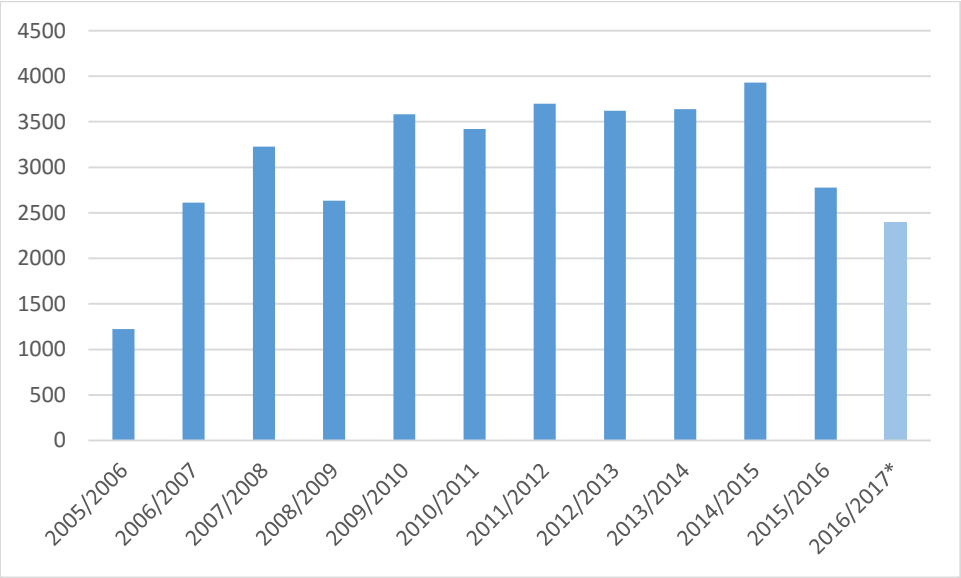


***Table 1:** National Maize Balance Sheet, Malawi*

		2015/2016	2016/2017
Availability	Opening stocks	75,550	15,000
	Production	2,776,277	2,369,493
	Total availability	**2,851,832**	**2,384,493**
Requirements	Total consumption (including losses)	3,088,789	3,260,800
	Strategic grain reserve replenishment	115,000	250,000
	Total requirements	**3,203,789**	**3,510,800**
	Deficit	**-351,957**	**-1,126,307**

Source: Ministry of Agriculture

The status of food insecurity

The results of the Malawi Vulnerability Assessment Committee (MVAC) survey conducted in May 2016 indicates that a total of 6.5 million people, or 39 percent of the population will not be able to meet their annual minimum food requirements.[4] This is 2.3 times more than last year when 2.8 million people were estimated to be vulnerable and almost five times more than in 2014/15. All but four of the 28 districts are affected with annual food deficits ranging from 3 to 9 months. The food insecurity numbers are expected to gradually increase each month as per the estimates in **Table 2**.

[4] MVAC (2016). National Food and Nutrition Security Forecast, April 2016 to March 2017.

Table 2: *Estimated number of food insecure by month.*

Month	Beneficiaries
July	236,028
August	1,068,959
September	1,724,594
October	3,032,345
November	5,738,510
December	6,266,356
January	6,491,847
February	6,491,847
March	6,491,847

Source: Republic of Malawi (2016). 2016/2017 Food Security Response Plan.

What is the government response?

The government believes that the 800,000 MT consumption requirement could be filled by the humanitarian and private sector channels—400,000 MT each. The 'humanitarian' component is to be filled through the National Food Reserve Agency (NFRA) and international humanitarian partners, while the 'private sector' component is to be covered by ADMARC, a parastatal company in charge of price stabilization, and the commercial sector.

The government plans to cover the shortfall through partial support by the IMF and World Bank. Some of the funds have been used by the NFRA to replenish the SGR. In addition, the plan is that WFP would import 145,000 MT of maize on behalf of the Government of Malawi, to go into the SGR. To date 55,000 MT has been purchased.

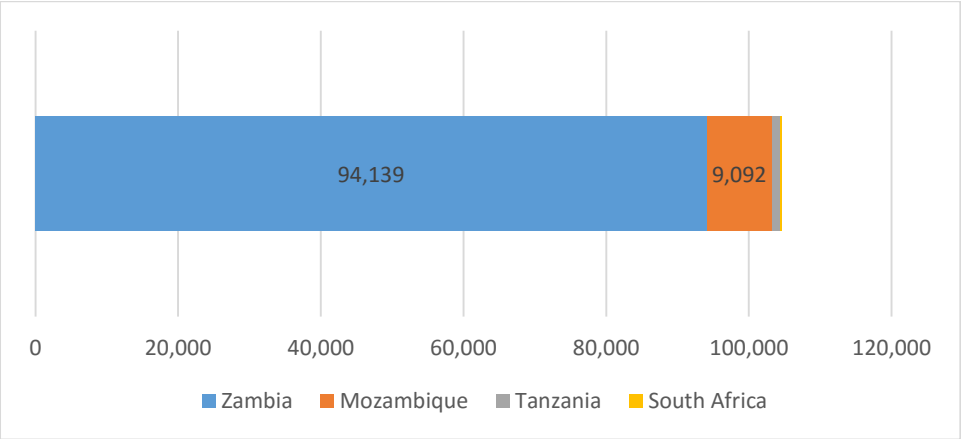
So far the NFRA has bought almost 35,000 MT for the SGR. The carry-over from last season was 22,000 MT giving a current stock of 55,000 MT after some minor drawdowns, of about 2,000 MT. If the USD 16 million are made available, NFRA expects to buy an additional 48,000 MT. In addition a carry-over of 16,000 MT from last year's flood response is expected, giving a stock of 120,000 MT by the end of September. The plan is to increase the SGR to at least 250,000 MT. While this maize is bought on the local market, much of it is likely to come from Zambia and Tanzania through informal trade which means that new maize is entering the market. This price differential of about $40 - $120/MT between the NFRA price and the market price in Zambia creates significant rent seeking opportunities. Traders estimate that about 400,000 MT of maize come into Malawi through informal imports. If this is the case, it is covering half of the deficit.

When it comes to the 'market' part, ADMARC is buying maize at USD 350/MT, maize that later will be sold to a subsidized price of USD 160/MT with the gap being guaranteed by the Treasury. The plan is to buy 70,000 MT locally in 2016, but this is unlikely given resource constraints. In 2015 ADMARC purchased 50,000 MT.

The government plans to import 300,000 MT for the NFRA to be distributed through ADMARC. Both the government and the commercial sector are looking at Zambia as the main source of imports. In 2015, Malawi imported 94,000 MT from Zambia; this constituted 90 percent of the imports (**Figure 2**). Recently, the government ordered 100,000 MT on a bilateral deal with government of Zambia. It is clear that government knows that it cannot only count on Zambia for its import since Brazil, Mexico, Tanzania and Ukraine were also mentioned as possible trading partners. According to official Ministry of Trade statistics, only minor amounts of official imports from Mozambique, South Africa, Tanzania

and Zambia have passed the border up until end of June 2016. At the same period last year, over 90,000 MT had been imported. This demonstrates the difficulties that the government faces in financing the planned imports.

***Figure 2**: Formal maize imports to Malawi by country, 2015 (MT)*



Source: Malawi Ministry of Trade

The role of the private sector

The private sector is likely to currently hold approximately 226,000 MT, mostly bought on the local market. The uncertainty on the role of ADMARC is hampering private sector participation to alleviate food shortages. While traders have the capacity to import about 500,000 MT and the capacity to borrow money offshore to finance imports they are reluctant to import given the uncertainty on whether ADMARC will offload maize at subsidized prices, which will hurt their business. Hence the traders import as long as they have forward contracts with the government which they currently do not receive.

Issuance of import permits is as such not a problem. The government is restricting import of Tanzanian maize due to Maize Lethal Necrosis Disease (MLND), but will allow imports of processed maize meal from Tanzania.

The government confirmed that they accept import of GMO maize as long as it is processed. In addition, the government may accept GMO maize grain provided it is imported under supervision and is delivered directly into a mill for processing prior to distribution.

Zimbabwe

Background: An already troubled economy hit by El Niño

The crisis is now deep in Zimbabwe as the impacts of the El Niño induced drought have compounded the effects of a protracted economic underperformance. As a response to the hyperinflationary spiral and a collapsing economy, Zimbabwe adopted a multi-currency system in 2009, at present including

9 currencies.[5] Due to its appreciation, the US dollar has become the dominant currency, representing 95 percent of total circulation in 2016. The use of a high valued currency has a number of consequences for Zimbabwe. It makes the economy dependent on exports while imports are relatively cheap. With low global commodity prices for key export commodities, such as mining products and tobacco, and an uncompetitive manufacturing sector, Zimbabwe's economy not only started a significant slowdown in 2015 (GDP growth of 0.2 percent) but is also facing significant cash shortages, largely driven by the current account deficit (16.4 percent of GDP in 2016). The government using banks deposits at the Reserve Bank of Zimbabwe to pay its financial obligations, and domestic banks purchasing treasury bills, automatically renewed upon maturity by the government, are also adding to the shortages.

With no own currency, the monetary instruments available to the government are naturally limited. Zimbabwe is experiencing a deflationary trend, in response to these macroeconomic imbalances. The country experienced a second year of deflation in 2015; oil prices declined by 47 percent and food and beverages prices by nearly 19 percent. Currently the food price deflation is at 4 percent and due to the poor harvest food prices are likely to increase in 2016.

A long isolation from the international community has restricted aid flows and resulted in build-up of arrears to multilateral and bilateral partners. The government has literally no reserve and is currently trying to clear its arrears of USD 1.8 billion to the international financial institutions (IFIs) by September 2016 in order to initiate re-engagement with the IMF, World Bank and the African Development Bank for further loans and support. The total external debt was estimated to be US$10.5 billion (76 percent of GDP) in 2015. The public debt burden has had a serious negative impact on the cost of capital and the economy. It has limited Zimbabwe's access to financing and raised the cost to the private sector of accessing international capital markets as Zimbabwe is viewed as a high risk destination.

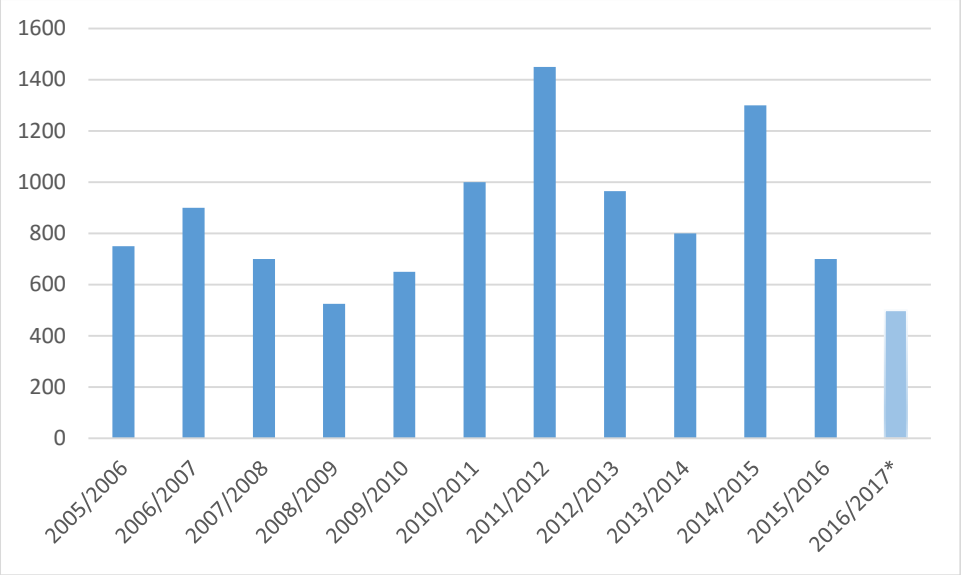
The most recent developments in the country have not been encouraging. In the first half of July, civil servants staged a strike twice (July 6 and July 13-14) in protest at delays in the payment of their June salaries.[6]

How bad is the cereal deficit?

While the five-year maize harvest average in Zimbabwe stands at 1 million MT, the country has now experienced two years of consecutive deficits (**Figure 3**).[7] The total harvest is estimated to 500,000 MT for the 2016/2017 seasons, or half of the five-year average. With a total cereal requirement of about 1.7 million MT, Zimbabwe is also during a normal year a net importer of maize. However this year the deficit is likely to be 1.2 million MT. [8]

***Figure 3**: Maize production and consumption in Zimbabwe, marketing season 2005/2006-2016/2017*

[5]The basket includes US Dollar, South African Rand, Euro, British Pound, Chinese Yuan, Botswanan Pula, Australian Dollar, Indian Rupee and Japanese Yen.
[6] Economist Intelligence Unit 2016.
[7] World Agricultural Supply and Demand Estimates Report
[8] FESNET's Regional Supply and Market Outlook reports substantially higher requirements of 2.3 million MT giving a shortfall of 1.7 million MT.



Source: WASDE, 2016-2017 is an estimate based on various sources.

The status of food insecurity

According to the results of the Zimbabwe Vulnerability Assessment Committee (ZimVAC) rural livelihoods assessment, published in early July, the food insecurity numbers are expected to gradually increase each quarter as per the estimates in **Table 3**. The current estimates for the peak of the lean season stand at 4.1 million or 42 percent of the total population. These estimates will be updated based on a simulation model if some major changes happen in the economy that are likely to have an impact on the estimates. According to the World Bank, the rural population in Zimbabwe is 67.5 percent of the total population. An urban survey is about to start and will according to ZimVAC be published at the end of September.

***Table 3**: Estimated number of food insecure in rural areas*

April-June 2016	986,542	6 %
July-Sept 2016	2,199,223	23 %
Oct-Dec 2016	3,390,224	35 %
Jan-Mar 2017	4,071,233	42 %

Source: ZimVAC

What is the government response?

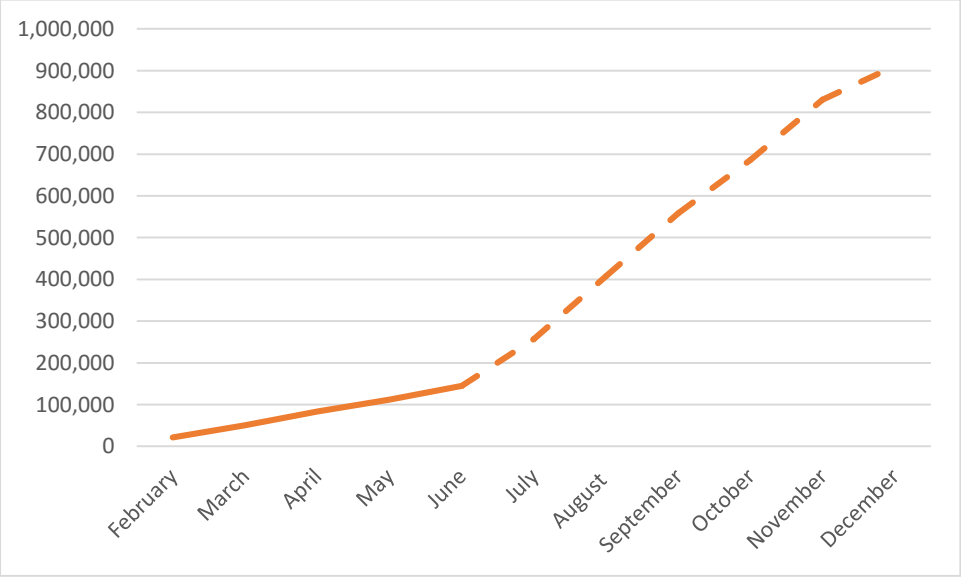
Imports

According to the Ministry of Agriculture (MoA), the government plans to import 700,000 MT of maize through government-to-government agreements from Zambia, South Africa, Mexico, the United States, Brazil and Ukraine by December 2016. The cumulative imports as at July 19 stood at 160,155 MT. There is a target to import 60,000 MT per month which is currently not being reached. **Figure 4** shows the actual and projected monthly imports from February to December 2016. From February to June the grain imports have been around half of the monthly targets, resulting in very high targets for the end of the year (in actual fact reaching 900,000 MT). Given the level of imports so far it is hard to

see how the government would reach its target of 700,000 by the end of December. From volumes already purchased, the government owes USD 5 million to transporters. In addition, the government needs USD 1.2 million for the purchase of empty bags and internal transport to deliver food to needy regions.

Conflicting information around imports abounds. FEWSNET indicated that Zimbabwe quickly will be able to fill its cereal deficits since the country (both government and private sector) has imported more than twice as much as at the same time last year. It is notable that Zimbabwe has started to import, or plans to do so, from outside the region. For several years, Zimbabwe has been Zambia's preferred export country, partly driven by the Zambian need for foreign exchange. Of the 900,000 MT imported last year, 627,000 MT was imported from Zambia. According to Zambia National Statistics Office, 80 percent of the exports from Zambia went to Zimbabwe. This year, this might not be the case anymore due to Zimbabwe's inability to pay. Zimbabwe has also managed to upset Zambia by banning imports on some products (see more below). While the MoA indicated that they currently import 10,000 MT a month from Zambia through the Food Reserve Agency (FRA), this was contradicted by Zambian government officials who reported that no maize is exported through government to government agreements. Also, this is unlikely to take place as the FRA reserves stand at 100,000 MT in Zambia. It is likely that the FRA will only consider exports of the 2016 crop when they reach a minimum of 500,000mt for the SGR.

***Figure 4**: Actual and projected cumulative government imports February-December 2016*



Source: Government of Zimbabwe, July 2016.

In addition to the imports, Ministry of Finance (MoF) reported that China has donated rice worth 24 million USD, while Brazil has donated 4,500 MT in kind rice. Japan (4.5 million), EU (4.5 million) and USAID (10 million) have donated funds for grains purchase.

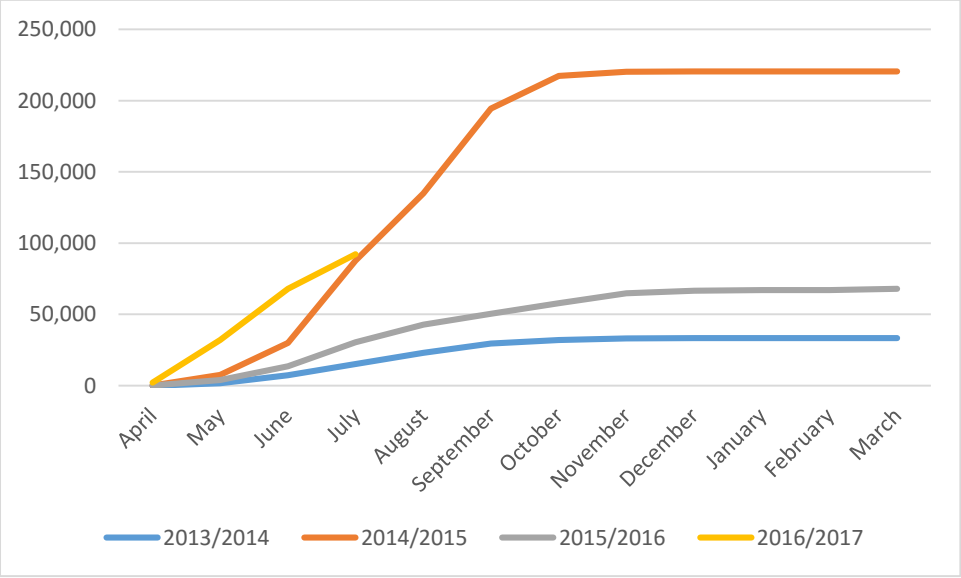
Grain Marketing Board (GMB) reserves (i.e. the strategic grain reserve) stand at 166,520 MT. This is 33 percent of the statutory minimum of 500,000 MT. GMB has so far purchased 107,419 MT from local farmers. **Figure 5** shows the cumulative monthly purchase from the local market in the marketing seasons 2013/2014 to 2016/2017. It can be noticed that GMB is buying at a higher rate than previous

marketing seasons, in fact it has already bought more than it did during the marketing season 2015/2016 in total. The target is to purchase approximately 120,000 MT which is half of what was bought in 2015/2016. The GMB is buying maize at USD390 and are paying in 10 to 14 days, although conflicting information was provided by other players, who have reported over 2 months for payment. The price is well above the one that traders are offering (in cash), ranging from 275 to 350 USD/MT according to the Agricultural Marketing Authority. The combination of prices well above the market price and payments on time explain why the GMB manages to buy at a higher rate than previous years.

Other measures

In June 2016, Zimbabwe banned imports of basic commodities such as bottled water and a large range of food products such as sugar, cooking oil, milk, cheese and jams. Soap, clothing and electronics are also included in the ban. These products account for over 70 percent of the import bill. The ban is motivated by the need to reduce the import bill and protect local industries. However, as local companies have been closing the import ban is problematic and could lead to shortages and increased prices. As mentioned above, it has also created tensions with countries exporting to Zimbabwe.

***Figure 5**: GMB cumulative monthly purchase from local market, marketing seasons 2013/2014-2016/2017*



In May the Reserve Bank of Zimbabwe (RBZ) announced that local bond notes would be introduced to counter the shortage of cash in the country. This would be backed by an African Import Export Bank (Afreximbank) USD 200 million loan. This initially sparked concerns that the government is trying to reintroduce a local currency. Discussions with the Afreximbank suggested that these funds are intended for food insecurity mitigation and will be used for buying food. The Ministry of Finance confirmed that this is the case but that the facility will also be used to clear arrears that have accrued on imports. The Ministry of Finance indicated that there is some possibility that this facility will be available before October.

Safety nets and other interventions

The government is implementing a Food Deficit Mitigation Programme (FDMP) by distributing a 50 kg bag to households in 60 districts through the Grain Marketing Board (GMB). Due to the drought, the

target has increased from 100,000 to 640,000 households per month (3.2 million individuals) implying 32,000 MT per month. In principle this is only 160,000 households short of the number of households that are forecasted to be vulnerable during the top of the lean season. However, this target is far from being reached. Also, while the ZimVAC feeds into the geographical targeting of the government programs, the final targeting is community based.

The major bottleneck for the actual implementation of the programme is the costs of packaging the maize into 50 kg bags and the transport costs from the GMB depots to the households. These logistics cost mount to USD 1.2 million per month. Since September 2015 the GMB has dispatched 170,039 MT to the Department of Social Services for distribution to vulnerable households. However, it is unclear how much of this has been distributed. The Ministry of Public Service, Labour and Social Welfare reported that during the past two months (June and July) no support from treasury has been received, indicating a halt in the distributions. Desperate households go to the depots to pick up the rations themselves. The remote depots do not have grain so needy households have to travel long distances. As part of the FDMP, the government would like to top up the grain distribution with a USD 10 but funds are not available.

In addition to the FDMP, there is a Harmonized Cash Transfer Programme (HCTP), targeted for 19 districts for 52,079 labor constrained households. The transfer is 10 USD per capita/month with a maximum of 25 USD per household. The program is supposed to be funded 50 percent by the government and 50 percent by donors. The last distribution took place in March due to lack of funds. The government hopes to take up the program again in August. In addition to the HCTP there is a Public Assistance Programme that is being replaced by the HCTP but that is still active in the districts where the HCTP has not been launched and provides vulnerable households with USD 20/month. For food poor households with able-bodied members there is also a Productive Asset Creation Programme during the off-season.

The government has also scaled up its school feeding program to 1 million children per month. It is unclear to what extent this is being implemented.

The Presidential Input Programme has been launched to ensure that farmers have seeds and inputs during the planting season starting in October. The farmers are expected to contribute at least 10 percent of the value of the input package. So far, the government has only secured a USD 400,000 contribution from FAO. The government also plans to put 200,000 Ha under irrigation in 2016/17 to augment food production.

The role of the private sector

The government is allowing the private sector to import. According to Zimbabwe Revenue Authority, the private sector has since January 2016 until mid-July imported 124,502 MT of maize and 7,036 MT of maize meal.

Regarding private sector imports, Agricultural Markets Authority informed that despite the imbalance in the domestic supply/demand figure, current import license requests are at the same level as last year. On the other hand, WB/IMF state that import permits have been executed in less than 50 percent of total authorized volume during the last years due to lack of demand. So this could mean that imports are growing within the previously unused permitted volume. Import taxes are low and permits are issued within less than one week.

Potential importers/traders are highly affected by the current economic crisis, as there is no liquidity in the market, low credit availability and deposits have restricted availability and lose value when going through bank accounts.

The current crisis has led to a situation where the USD has an exchange rate against itself; a USD can cost as much as 1.15 USD.[9]

Zambia

Background: Despite surplus harvest, the effects of El Niño are felt

During the last couple of years the Zambian economy has been under pressure due to a combination of external headwinds and domestic pressures.[10] External headwinds include slower global growth, particularly in China, and a US dollar that has strengthened against the kwacha. The Zambia economy remains dependent on copper mining, including 77 percent of its export earnings, and the slowdown in China, which purchases 45 percent of the global copper production, has resulted in declining global copper prices. Between a peak in Q1 2011 and Q1 2016, copper prices have fallen by 52 percent. Domestic pressures include a power crisis that has impacted on all sectors of the economy, and repeated fiscal deficits. The cause of the power crisis is a reduction in hydroelectric generation due to low water levels at the country's main reservoirs. El Niño further exacerbated this problem. The lower electricity generation has necessitated expensive power imports from South Africa, putting additional pressure on the budget. Combined with low global copper prices, the lower copper production have had a further impact on export earnings. The outflow of foreign exchange is also driven by the fact that 80-90 percent of the infrastructure investments in Zambia, are done by China.

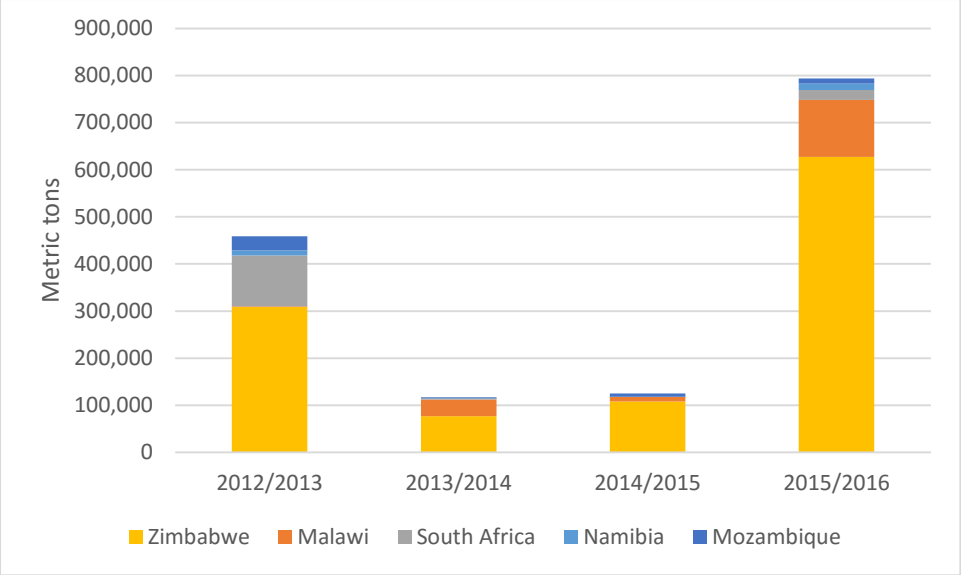
Despite the impacts of El Niño on the water reservoirs, the maize harvest still showed a surplus that other countries in the region are looking to import. The SADC Regional Appeal also includes a commitment by Zambia to assist its neighbors affected by the El Niño induced drought. While that is the case, exports are likely to be restricted until October, due to the elections held on August 11. A restrictive export policy is being implemented, only allowing 2015 crops to be exported.

How much maize can Zambia export?

According to NSO data, Zambia exported almost 800,000 MT of maize to Southern African countries in the last marketing season (**Figure 6**). Of this almost 80 percent, or 627,000 MT, went to Zimbabwe and 121,000 MT to Malawi.[11] For both of these countries, Zambia was the main source of maize imports. In a year when Malawi and Zimbabwe are the countries with the main deficits, it is of interest to explore to what extent Zambia can remain an important supplier in the 2016/2017 season.

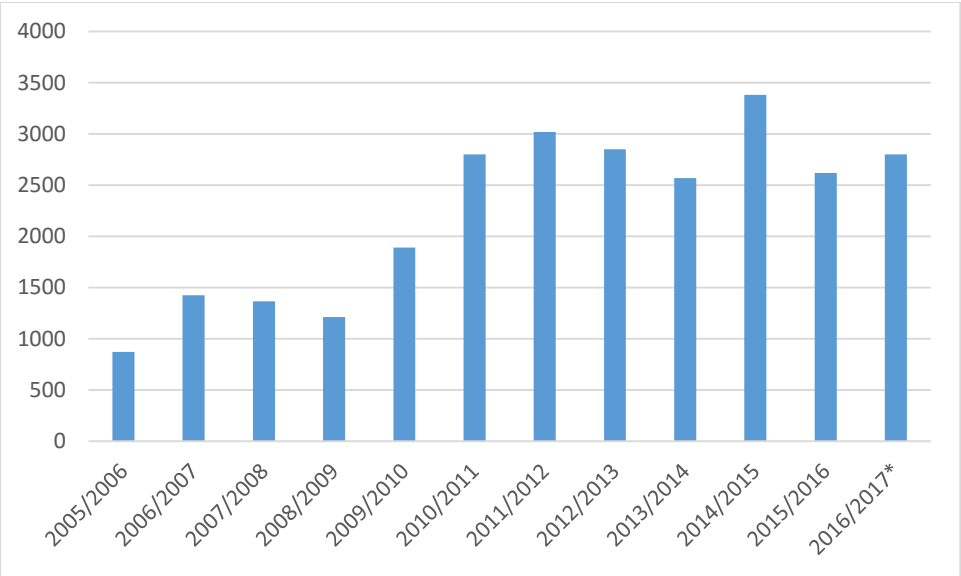
***Figure 6**: Zambian maize exports by country, 2012/3013-2015/2016*

[9] http://www.bloomberg.com/news/articles/2016-06-07/zimbabwe-s-black-market-where-the-dollar-trades-against-itself and discussions with the World Bank.
[10] World Bank (2016). Zambia economic brief. Beating the slowdown: making every kwacha count. June 2016.
[11] Note a small difference with the numbers reported by the Malawi NSO.



The five-year maize harvest average in Zambia stands according to the World Agricultural Supply and Demand Estimates Report at 2.9 million MT (**Figure 7**). According to the official Zambian national food balance sheets, the production this year also stands at 2.9 million MT (**Table 4**). With a total consumption of 2.2 million MT, a strategic grain reserve requirement of 500,000 MT and informal trade at 200,000 the potential exportable surplus has been estimated to 635,000 MT.

***Figure 7**: Maize production in Zambia, marketing season 2005/2006-2016/2017*



Source: the World Agricultural Supply and Demand Estimates Report (*WASDE)*

***Table 4**: Simplified national maize balance sheets 2015/16 and 2016/2017*

		2015/2016	**2016/2017**
Availability	Opening stocks	986,984	667,524
	Production	2,618,221	2,873,052

	Total availability	**3,605,205**	**3,540,577**
Requirements	Total consumption (including losses)	2,028,437	2,205,896
	Strategic grain reserve	500,000	500,000
	Informal cross-border trade	200,000	200,000
	Total requirements	**2,728,437**	**2,905,896**
	Surplus/Deficit	**876,768**	**634,681**
	Potential commercial exports	**876,768**	**634,681**

Source: Zambia NSO

There are several reasons for why this exportable surplus may in fact not materialize to the extent expected. These include lower opening stocks than expected, elections and increased informal trade.

The opening stocks consist of stocks held by the private sector and the Food Reserve Agency (FRA) when the new marketing year starts in May. Discussions with FRA and traders revealed that FRA is only holding 100,000 MT and the private sector 167,000 MT, suggesting that the opening stocks are much lower than expected. The reason for these low stocks are a result of policy decisions taken in the previous year. As **Table 4** shows, FRA had a carry-over of almost 1 million MT from 2013/14 to 2014/15. After having bought an additional 593,000 MT the stocks were high in November 2015 so the government allowed FRA to sell 930,000 MT until June 2016 on the local market at subsidized prices of $170/MT to try to reduce the high maize meal prices. The same maize was purchased at $270/MT in the 2013/14 season. The intended price reduction did not materialize since a portion of the maize (and maize meal) flowed out to the neighbouring countries, but the sale resulted in very low FRA stocks.

FRA's initial target for the 2016/2017 season purchases was set at 500,000 MT but was recently revised to 1 million MT. As **Table 4** suggests strategic grain reserve (SGR) requirement stands at 500,000 MT. FRA started buying late this year, in mid-July and will keep buying until end October. In order to give space to the private traders, FRA set a price of 170 USD/MT, lower than the current market price, at a level of $240/MT in Lusaka. Purchases by FRA will predominantly come from Northern Zambia, which accounts for about 30 percent of the total crop (about 800,000 MT), since in other areas traders are buying at prices up to 265 USD/MT. By 23 July, FRA had only managed to buy 4,000 MT. Given the low price being offered by FRA, it is unlikely that the agency will buy enough maize to reach the government target of 1 million MT by end October. If FRA fails to buy at the minimum SGR requirement of 500,000 MT, it is unlikely that the government will allow exports of maize out of Zambia, in order to secure its maize stock position within the country. This situation is exacerbated by the elections held in August as the government has deferred any decision regarding exports until October.

Although there is no official ban for exports, the government exercises a restrictive export policy, only allowing 2015 stocks to be exported. However, only contracts that have already been paid for can be executed. Of the 167,000 MT held by the private sector, less than 40,000 MT have been exported so far.

The importance of informal trade cannot be overstated. In the official balance sheets, the amount is estimated to be 200,000 MT. Government officials estimated the share to be 30-35 percent of total trade. With 635,000 MT of formal trade this would mean 300-350,000 MT of informal trade. ACTESA estimated that 60-80 percent of the maize produced in the eastern provinces bordering Malawi flows

over the porous borders. With approximately 25 percent of the total maize production coming from this area, this would mean up to 500,000 MT informally crossing the borders. While the actual amount remains unclear, the magnitude suggests that the government faces challenges in estimating the size of the actual maize stocks in the country. This leads to cautious behaviour when it comes to exports. It also suggests that the actual amount available for official exports this year is likely to be fairly small.

South Africa

South Africa is the region's largest maize producer and contributes on average to over 40 percent of regional maize production.[12] South Africa will produce about 7.3 million MT of maize in marketing season 2016/2017 leading to a deficit of about 3 million MT. However, the maize market operates on an 'open border' where both exports and imports are unrestricted, as long as the maize conforms to national food quality and safety standards. Total imports for the 2015/16 season are estimated at 3.2 million MT and due to these substantial imports opening stocks in South Africa are above average. Traders in South Africa have booked about 700,000 MT of both GMO and non-GMO maize out of Mexico only, to meet part of the national shortfall. About 300,000 MT have already been received in South Africa. Further imports are being lined up out of Argentina, United States, Brazil and Ukraine. For the South African maize market, the decision on whether to import or not depends on the level of the Import Parity Price (IPP) of maize against the South Africa Futures Exchange (SAFEX) market. In April 2016, the December 2016 futures price of maize on SAFEX was $372, the highest the SAFEX has ever experienced. The high price attracted bookings of large imports. However, on 28 July 2016 the spot price of white maize on SAFEX had dropped to $295. This price was almost at par with IPP of Mexican maize resulting in slowing down on orders. However, Ukrainian maize remains competitive.

Since maize from Ukraine, Brazil and the US is usually of inferior quality than the South African WM1, it is used as feed, while local maize intended for feed will be utilised for human consumption. South Africa also exports maize to neighbouring countries while importing from cheaper sources.

The supply and demand data of South African traders incorporates the demand from Lesotho, Swaziland, Botswana and Namibia "the Rand economy countries". Given that both Zimbabwe and Malawi now accept GMO maize and maize meal, South Africa becomes an important source.

The regional picture

The regional picture that emerges is that the same factors that affected food security last year – food shortage, high prices and poor macroeconomic performance - are in play this year but at a higher intensity leading to high cumulative vulnerability. As a result, the lean season is likely to start early in Zimbabwe and Malawi, around November/December. Markets will remain atypically thin with prices likely to further increase, particularly during the peak of the lean season between January and March 2017. Low intensity La Nina may be a blessing in disguise and could improve the regional supply context but this will not happen until those harvests begin in April 2017.

Table 5 shows the summary maize balance sheets for Malawi, Zimbabwe and Zambia. The shortfalls in Malawi and Zimbabwe mean that the two countries will require 2 million MT, implying a shortfall

[12] FEWSNET (2016). Regional maize market fundamentals, Southern Africa. August 2016.

of at least 1.4 million MT as Zambia's surplus in the best case scenario will be about 600,000 MT. At the same time Angola, DRC, Namibia, Mozambique and Malawi will all be looking at Zambian maize as well. Zambia surplus stocks will be inadequate and need to be augmented with international purchases. To cover the requirements, international imports will be needed with South Africa as the most likely point of entry for those imports. **Table 6** shows the likely sourcing options, indicating that 1.7 million MT is available on the international markets. Since GMO maize meal is allowed in both Malawi and Zambia, GMO maize is included in the table.

However, slow economic growth continues to impact national response capacities in the countries concerned as financing, liquidity and foreign exchange issues are present. These factors make it costly and difficult for the countries to reach their import requirements. FEWSNET estimates that the maize import volumes will cover only a fraction of the supply gap.[13]

***Table 5**: Summary balance sheets in Malawi, Zimbabwe and Zambia (million tons)*

	Malawi	Zimbabwe	Zambia
Consumption	3.20	1.70	2.20
Production	2.40	0.50	2.80
Deficit/Surplus	-0.80	-1.20	0.60

Source: Ministry of Agriculture and mission estimates.

***Table 6**: Sourcing options*

Country	Type of maize	Metric tons '000
Mexico	White non-GMO	300
South Africa	GMO and non-GMO	200
Tanzania*	White non-GMO	300
United States	White non-GMO	300
Brazil	Yellow mainly for feed substitution	200
Argentina	White non-GMO	200
Ukraine	Yellow mainly for feed substitution	200
Total		1,700

* given MLND disease accepted for formal exports only if crushed.

Source: Authors' judgement based on the mission

In addition, distorted economic and trade policies and lack of clarity in government policies create rent seeking incentives. In **Table 7** the market price and government selling and buying prices of the different countries are displayed. Given the price differentials between Malawi and Zimbabwe versus Zambia, it is not a surprise that this leads to a situation where large informal trade is crossing the borders. While the Zambezi River and better infrastructure impedes informal trade between Zambia and Zimbabwe, this situation is mostly benefitting Malawi which is likely to have received 400,000 MT through informal trade from Zambia, owing to attractive premiums. On the bright side, this reduces the deficits but the negative effects are the information asymmetries it creates along with increased uncertainty. In Malawi, the difference between the government buying and selling price create opportunities for key players in the maize market to sell at a high price, buy at a low and resell the stocks at a high price. The Treasury guarantee to cover the difference between the buying and selling price is a huge expense for a poor country like Malawi.

[13] FESWNET (2016). Regional Supply and Market Outlook, Southern Africa. August 2016.

Table 7: *Average market price in July and government buying and selling price (USD/MT)*

	Malawi	Zimbabwe	Zambia
Market price (July)	350	390	220
Government selling price	160	300	170
Government buying price	320	390	170

Source: Malawi: National Food Reserve Agency; Zimbabwe: Grain Marketing Board; Zambia: National Food Reserve Agency.

The private sector in both countries has in principle the capacity to alleviate food shortages. In Malawi, lack of clarity in government policies is the key constraint. As mentioned above, the uncertainty as to whether ADMARC will offload maize at subsidized prices, is hampering private sector imports. In Zimbabwe, the main constraint is the unavailability of liquidity in the market and low credit availability.

The crisis in both Malawi and Zimbabwe requires external support. In Zimbabwe, the government has declared that it requires a total of USD 1,572,009,953 in international humanitarian assistance from February to December 2016, which would include sustainable measures to assist in the event that the drought prolongs to the 2016/17 agricultural season. Since the major multilateral institutions are not able to lend to Zimbabwe right now the situation is challenging. Most lines of credit are exhausted and new lines of credit are limited with some facilities being made available by China and Russia. The gap that is to be filled by the private and humanitarian sector is 500,000 MT under the assumption that the government imports of 700,000 MT is reached.

In Malawi, the response plan requirements are USD 395 million. Amid lingering concerns over high-level corruption in Malawi, donors prefer not to finance the government directly to support food imports. The gap that is to be filled by the private and humanitarian sector is 500,000 MT under the assumption that the government imports of 300,000 MT is reached.

Modalities of assistance

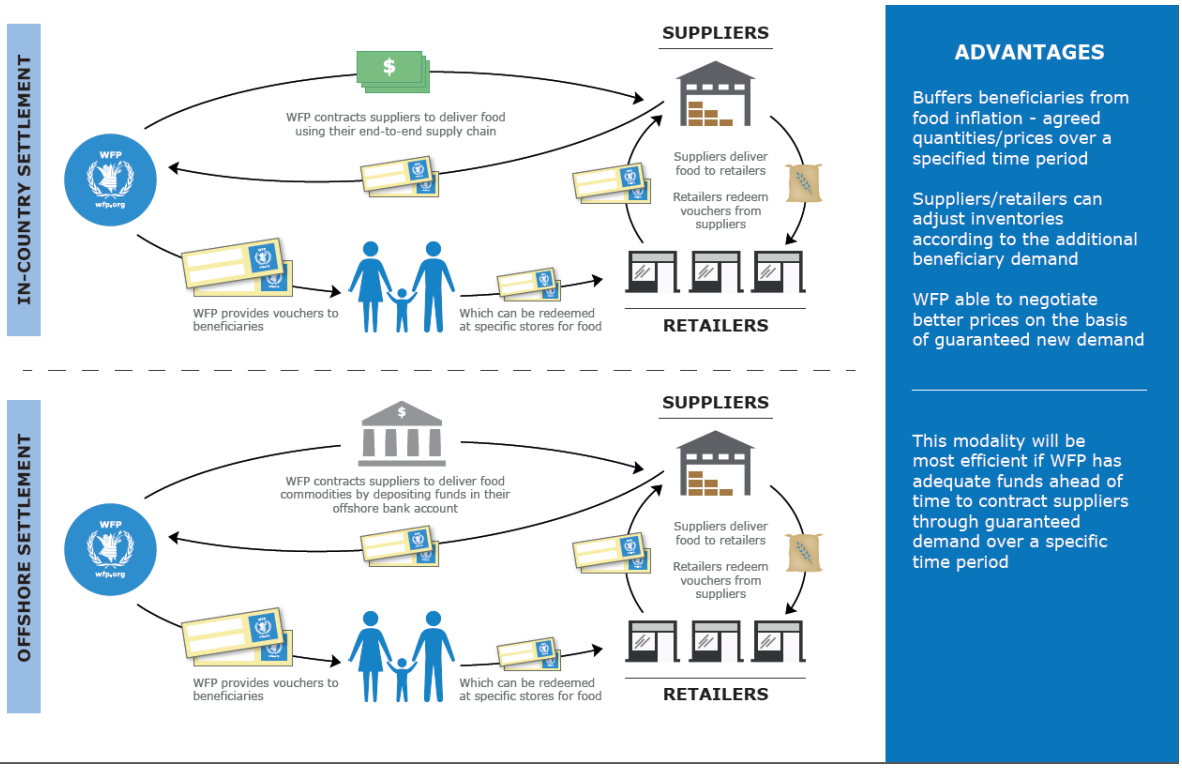
Given the situation of constrained supply, high food inflation (Malawi) and liquidity challenges (Zimbabwe), cash assistance may not be a viable option in Malawi and Zimbabwe. This was a common view shared by virtually all stakeholders. In its Regional Supply and Market Outlook from August, FEWSNET states that "the design of cash and voucher programs should take into consideration the very thin markets and resulting variable and high prices". In Malawi, increased purchasing power would likely lead to increased inflation given the food deficit and the already high food prices. The constraints of the private sector makes it unlikely that an increase in demand automatically would lead to an increase in supply. Thus expanding the supply of maize is necessary. In Zimbabwe, putting cash into the hands of beneficiaries would not necessarily serve food assistance goals given the severe cash shortage. Given the high costs for traders to operate, the supply side would not necessarily respond. Also in Zimbabwe expanding the maize supply is necessary.

This does not mean that market based solutions could not be an option as long as WFP is working not only with the demand side, as is normally the case with CBT, but also the supply side using private sector "end-to-end supply chains". The two models envisaged are shown in **Figure 8** and should be implementable both in Malawi and Zimbabwe.

The first model can be used in Malawi and relies on an in-country settlement while the second model is likely to be preferred for Zimbabwe, relying on an off-shore account. The major difference from an ordinary commodity voucher is that WFP also intervenes on the supply side by either buying food for the suppliers or pays the suppliers for the food. In Malawi Farmer's World is already implementing a

DFID funded programme through a similar system. These models would assure that the capacity of the private sector is utilized, that the maize supply is expanded and that beneficiaries are buffered against price increases.

***Figure 8**: Two possible voucher models*



In Malawi, three companies: Rab Processors, Farmers World (Grain Company) and Export Trading Group have the capacity to distribute food assistance through their supply chains, which are well spread out throughout the country.

In Zimbabwe, the biggest food chain, National Foods trades about 500,000 MT of food per year. It has enough infrastructure to be an implementation partner for WFP with factories and outlets well spread throughout the country. The company is now operating at about 55 percent of its capacity. Other suppliers such as Premier Foods, Blue Ribbon Foods and Victoria Foods may also be able to provide the service but to a much smaller geographic coverage. The Ministry of Finance and Treasury are open to establishing an offshore account for humanitarian assistance. This would mean that cash-based assistance could be a possibility without paying extraordinary costs for moving money.

Recommendations

Operational

Based on the mission findings, the following recommendations are made:

(1) immediate international maize imports are needed to augment local supplies and minimize price pressures/reduce food inflation; Malawi and Zimbabwe are willing to accept crushed GMO and supervised GMO grain imports;
(2) timing of these imports are of utmost importance because (a) the lead time for imported cargo is 8-12 weeks; (b) orders for imports for distribution in November should be placed by August/September; (c) competition with import of agriculture inputs; (d) high port congestion and transportation costs; (e) prepositioning before the raining season; (f) potential higher prices due to increased demand; (g) stabilization effect on prices and informal trade;
(3) if WFP is to secure the 120,000 MT in Zambia then it must receive confirmed pledges now;
(4) WFP has the opportunity to book/contract maize on basis of a SAFEX price, for future delivery; two traders gave prices of about $302 - $315 if contracted now for delivery in December;
(5) market based solutions must take into account the atypically thin markets; it is recommended that WFP works with both the demand and the supply side using private sector "end-to-end supply chains" for the delivery of vouchers;
(6) farming sector must be supported during the coming agricultural season since two consecutive rainy seasons have already failed.

Analytical

There is need for transparent information regarding:

(7) cross-border trade monitoring; The ACTESA activity for monitoring informal cross-border trade through a network of 30 monitors across Malawi, Zimbabwe, Zambia, Mozambique and RSA border has stalled because of lack of funding. This is a crucial activity that would bridge the uncertainty surrounding informal flows across countries and should be resourced. It should not be left to stall because it will be difficult to build such a robust data collection infrastructure.
(8) quarterly updated food balance sheets; In all the three countries, food balance sheets are prepared for the entire marketing season and remain fairly static and unable to reflect the dynamic changes in stocks. In all cases data to update the balance sheets are available but are scattered and a conscious and concerted effort is required to assemble the information to allow for the balance sheet to be updated.
(9) Integrated Food Security Phase Classification (IPC) compatible nVAC assessments; With the exception of Zimbabwe where the government has embraced IPC methodology as part of its assessment, there was some hesitancy in embracing IPC as a tool that allows for a deeper understanding of severity and allows for comparability of food security in space.
(10) real-time price monitoring systems; in a situation of high differentials, price is a reliable signal that help to understand changes in food supply conditions and the effects of policies adopted by countries within the region. WFP implements mobile household and market price monitoring systems in Malawi, Zimbabwe, Zambia, Lesotho and Madagascar and this is helping to monitor the food price signals and what its implications on food security.
(11) farmer registration programs; Zambia has started a process of registering farmers to map their characteristics and capabilities. Farmer registration programs must be expedited to improve targeting for the subsidy and food assistance programs.

Annex

Key stakeholders met during the mission

Donors and partners	Government	Private sector
Zimbabwe		
USAID DFID FEWSNET World Bank IMF FAO	Ministry of Agriculture Ministry of Public Service, Labour and Social Welfare Ministry of Finance Federal Reserve FNC Grain Marketing Board Agricultural Marketing Authority Department of Civil Protection	African Export Import Bank National Foods Zimbabwe Farmer's Union ZCFU
Malawi		
Irish Aid Norwegian Embassy DFID IMF World Bank AFDB FEWS NET FAO USAID	Ministry of Agriculture Ministry of Gender and Social Welfare Ministry of Trade and Industry Ministry of Finance and National Planning Department of Disaster Management Affairs National Food Reserve Agency ADMARC	RAB processors Export Trading Group Agriculture Commodity Exchange Grain Traders and Processors Association of Malawi Farmers World
Zambia		
World Bank ACTESA FEWSNET FAO DFID	Disaster Management and Mitigation Unit Ministry of Planning and National Development Food Reserve Agency Ministry of Finance Ministry of Agriculture	ZAMACE Grain Traders Association Cargill Zdenakie United African Grain Export Trading Group AFGRI
South Africa		
World Bank DFID IPC-GSU FAO OCHA USAID	Reserve Bank of South Africa Ministry of Finance	Johannesburg Stock Exchange AFGRI Dreyfuss Cargill