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## **NEPAD STUDY TO EXPLORE FURTHER OPTIONS FOR FOOD-SECURITY RESERVE SYSTEMS IN AFRICA**

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## INTRODUCTORY NOTE

1. At its First Regular Session in February 2004, the Board took note of the Memorandum of Understanding between WFP and the NEPAD secretariat to identify, facilitate and encourage practical cooperation in areas of mutual interest; the Board asked to be regularly updated on progress in implementing it, particularly with regard to the selected priorities for early action. This paper submitted to the Board for information is a summary of the study to explore further options for food-security reserve systems in Africa, which was commissioned by NEPAD and carried out by WFP in collaboration with the Food and Agriculture Organization of the United Nations (FAO), the World Bank, the European Union, the International Food Policy Research Institute (IFPRI), individual countries concerned and the African Regional Economic Communities. The English and French versions of the document are available at the document desk.
2. The study was introduced for information – the final corporate report, the executive summary and recommendations – at the high-level seminar “Innovative Approaches to Meeting the Hunger MDG in Africa”, the meetings of the NEPAD Steering Committee, the NEPAD Heads of State and Government Implementation Committee and the African Union Summit on 5–7 July 2004 in Addis Ababa.
3. Now that these meetings have given the go-ahead, a process needs to be established to ensure buy-in by African countries and support by potential partners to ensure that the recommendations in the study report are implemented.
4. NEPAD will have to lead the effort, in collaboration with the Regional Economic Communities and its partners, including WFP.

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## SCOPE OF THE STUDY

5. Africa has suffered from increasingly serious food crises over the last three decades as a result of natural and man-made disasters and the growing impoverishment of the rural population. The combination of drought, civil strife, poverty and the impact of HIV/AIDS has resulted in a high rate of undernourishment among Africans: over 40 percent of the total population, especially women and children, experience chronic food insecurity. Among children, malnutrition is responsible for very high rates of stunting and infant mortality.
6. Food shortages reached famine proportions in the Sahel and the Horn of Africa in 1972–1974 and in 1984–1985 in 25 African countries. Southern Africa faced particularly severe food shortages in 1992–1993 and 2002–2003. The Horn was badly affected in 2000–2001; Ethiopia’s food crisis in 2002–2003 affected 13 million people. Coming on top of an already unacceptable situation, these mostly drought-induced food shortages have caused intolerable levels of suffering, leading to the loss of millions of lives and to displacement and loss of livelihood for countless other Africans.
7. African leaders have decided to take action to reverse this trend. At the second summit meeting of the African Union in Maputo in July 2003, African Heads of State and Governments resolved “to ensure the establishment of regional food-reserve systems, including food stocks, linked to Africa’s own production, and the development of policies and strategies under the African Union and Regional Economic Communities, to fight hunger and poverty in Africa”. The Heads of State agreed to launch a study of food-reserve systems with a view to identifying actions that could be taken at the regional level,



including the possibility of establishing regional stocks, as a means of contributing to the availability of supplies in times of emergency and acute food crisis, and ensuring that people without purchasing power have access to the food they need. This is a major effort by African leaders to meet the Millennium Development Goals.

8. The mandate given for this study was to focus on food-reserve systems; it is not meant to be a study of the broad issue of food security, although some elements of food security are touched upon. It is based on a review of the origins and operational experiences of eight sample countries: in the Sahel, Burkina Faso, Mali and Niger; in Southern Africa, Malawi, Tanzania and Zambia; and in the Horn of Africa, Ethiopia and the Sudan. It draws lessons from these experiences that could enhance the effectiveness of existing and future national food-reserve systems in supporting food security policies.
9. It was commissioned by the New Partnership for Africa's Development, and was undertaken by a team of consultants coordinated by the World Food Programme. The Southern African Development Community and the World Bank conducted a parallel study in Malawi, Tanzania and Zambia with an emphasis on insurance options that could be used to ensure stability of supplies. The findings of this study and of a preliminary report prepared by the Food and Agriculture Organization of the United Nations for its Regional Conference for Africa in March 2004 were taken into consideration in finalizing the study for the New Partnership for Africa's Development. Principal donors, United Nations agencies and non-governmental organizations have been consulted. The country reports are available in English at the secretariat of the New Partnership for Africa's Development.

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## MAIN FINDINGS

10. The main findings of the study take the form of lessons learned about preconditions for effective operation of physical and financial reserves and options for national and regional actions. These are summarized below.
11. **Multiplicity and lack of clarity of objectives.** Many established food reserves have attempted to cover too many conflicting objectives. The underlying aim of maintaining price stability at levels affordable by urban populations has often been confused with the objectives of meeting urgent food needs arising from emergency situations and addressing the needs of populations suffering from chronic food insecurity. This has led to complex management structures with overlapping and sometimes contradictory policy priorities, often resulting in inefficient and inappropriate use of resources.
12. **Food-security policy.** In the 1960s and 1970s, food-security policies focused on improving agricultural production to maintain self-sufficiency; food reserves were generally established to compensate for variability in domestic harvests. The gradual evolution of comprehensive food-security policies in some of the countries reviewed led to a restructuring of food-reserve systems. The new approach combined physical reserves with complementary market-based instruments to achieve food-security objectives; it enjoyed strong donor support that contributed to the success of the experiences. The absence of such comprehensive policies in other countries had a negative impact on the effectiveness of their food reserves.



13. African leaders give high priority to the problem of food insecurity and recurrent emergencies. This calls for development of well articulated food-security policies in all parts of the continent that would encourage the participation of all stakeholders, including local traders, financial institutions and community-based organizations. Physical and financial food-reserve systems could play a strong supporting role and would be more effective in attaining their objectives if implemented in the context of such policies.
14. **Trade policy.** All the countries studied have moved away from strict monopolistic state trading of food commodities as a result of World Bank and International Monetary Fund structural adjustment programmes that were introduced in the 1980s. But many obstacles still impede both internal and intra-regional trade. The most pressing constraint to trade is the poor state of Africa's transport infrastructure, especially road and rail networks, and the telecommunications system, which is not sufficiently developed to encourage modern commercial operations. Even in the worst drought years, serious food deficits may exist side-by-side with surpluses in a country or its neighbours, but logistics constraints prevent locally produced surplus food from reaching needy people.
15. Another constraint that hinders further development of the considerable informal cross-border trade that takes place in natural trading areas is created by arbitrary restrictions that are sometimes imposed on trade in food commodities by national authorities in the name of food security. Inadequate information and financial capacity among local traders and banks also hinder intra-regional trade; quality controls and standards that could facilitate trade are generally absent.
16. **Early-warning and food-security information.** Information systems have not performed equally well in providing reliable data on production prospects, availability of supplies, consumption requirements and market conditions. In several countries of eastern and southern Africa, government decisions have been based on inadequate or inconsistent data.
17. **Reserve size.** Following market liberalization, stock levels of national food reserves in some study countries were set at very high levels that were hardly ever met. In other countries, reserves with stock levels just sufficient to meet the estimated immediate needs of target groups for emergency aid have normally been adequate pending commercial imports or food aid. In most countries this is equal to two to three month's import requirements, based on average figures from the previous five to ten years. Establishing emergency reserves of this size will minimize management costs and storage losses; stock rotations will not have much effect on prices or negative impact on future production.
18. **Decision-making.** National food reserves have been managed through government agencies, which often lack sufficient decision-making authority; political interference has had negative effects on management. The tendency of governments to use national stocks to meet political objectives and the use of stocks without adequate arrangements for replenishment have reduced their effectiveness.
19. **Reserve management.** Management of food reserves has been problematic in all countries included in this study. Complicated management structures with overlapping responsibilities, poor management of storage infrastructure resulting in high rates of loss for stored grain, low or unpredictable turnover and high storage costs have all contributed to reducing the efficiency of food reserves. The low skill level of many staff and lack of financial resources to cover operational costs have been serious handicaps in the management of food reserves in Africa.



## GENERAL CONCLUSIONS

20. All African countries would benefit from clear food-security policies that (i) provide food safety-nets for chronically food-insecure people, (ii) envision special relief programmes in the event of food emergencies (iii) explain the roles of domestic food production, food trade and food reserves in maintaining adequate supplies, and (iv) clearly specify the roles to be played by governments, farmers and the private sector.
21. Domestic food production will continue to be the major source of food supply throughout Africa for the foreseeable future; actions to improve productivity and production performance will therefore be crucial for the success of any food-security policy.
22. Countries have a variety of options for maintaining supplies when harvests are poor and for managing supplies destined for beneficiaries of safety-net or emergency food-relief programmes; these range from complete reliance on trade to relatively large physical reserves complemented by financial reserves and measures to promote development of domestic food markets.
23. If an option that involves holding physical reserves is preferred, a number of measures have to be put in place, including: (i) compatible food-security, market-development and trade policies; (ii) credible early-warning and food-security information systems; (iii) suitably located and well maintained transport, storage and communications infrastructures; (iv) clear stock-management and accounting procedures; (v) trained staff; and (vi) adequate funding arrangements. A system that meets all these conditions is referred to as an integrated food-security reserve system. Mali's *Programme pour la restructuration du marché des céréales* is the best example of an integrated food-reserve system reviewed in the course of this study.
24. The Ethiopian Emergency Food Security Reserve is one of the best current examples of an emergency food-security reserve system.
25. Action at regional level could complement national food-security policies and reserve systems in the areas of market information, early warning, assessments of food security and food needs, facilitation of cross-border and intra-regional trade, and emergency preparedness and response.

## PLATFORM FOR NATIONAL AND REGIONAL ACTION

### National Physical Reserves

26. The degree of suffering as a result of acute food crises in Africa is intolerable. It is recommended that African governments with a record of food insecurity consider the establishment of emergency food-security reserves where appropriate if they have not done so already.
  - i) Emergency reserve stocks should be sufficient to meet urgent food needs resulting from emergency-induced food shortages for up to three months.
  - ii) Chronic food needs among poor and vulnerable populations should be met through programmes designed for that purpose. National food-reserve stocks can be rotated through such safety-net programmes.



- iii) Competent and experienced independent bodies should be mobilized or established to provide policy guidance and manage food reserves. Political interference in decision-making should be avoided.
- iv) Staff with skills appropriate to managing stocks and keeping accurate account of stock movements should be mobilized or recruited. There should be an incentive structure to retain them and ensure a high standard of performance.

### **Complementary National Measures**

27. The needs for complementary national resources are as follows:

- Physical reserves should have financial components for purchasing urgently needed food from places close to the area of operation where there are surpluses, and for covering management and logistics costs.
- National early-warning and food-security information systems should be established or strengthened to provide reserve managers with credible and timely information about harvest prospects, potential food shortages and relief food needs of the vulnerable population.
- Private stock-holding should be encouraged through measures such as promoting greater use of traditional on-farm storage technologies with low rates of post-harvest loss, promoting pilot schemes to provide farmers with credit against warehouse receipts for stored grain and encouraging development of local milling and processing capacity.
- Governments should make clear their commitment to creating an enabling environment for development of domestic agricultural markets, including (i) making a commitment to refrain from imposing cumbersome regulations on internal and cross-border trade and (ii) facilitating transparent circulation of information about market conditions.

### **Regional Physical Reserves**

28. Setting up regional physical reserves is not recommended; food-reserve coordination committees should be set up instead to facilitate the use of national reserves to serve regional objectives. The Regional Economic Communities should supervise the food-reserve coordination committees and provide capacity-building training for national officials responsible for managing early-warning and food-security information systems.

### **Complementary Regional Actions**

29. Regional financial reserves:

- Consideration should be given to establishing regional financial reserves to be managed by a respected independent financial institution. Rules for the disbursement of funds to meet urgent needs would need to be established and strictly adhered to. The Regional Economic Communities should initiate discussion.
- The New Partnership for Africa's Development (NEPAD) should consult potential donors regarding the possibility of establishing a donor-held financial reserve to fund large-scale emergencies.



### 30. Trade:

- African countries, supported by NEPAD and the Regional Economic Communities, should accelerate the establishment of sub-regional and regional trading zones to consolidate benefits from the considerable informal cross-border trade. Enhanced intra-regional trade in food will contribute considerably to stabilizing food supplies in the region.
- Improvements in communications infrastructure, especially road and railway networks, are urgently needed; establishment of a shared account for infrastructure maintenance and use of regional contractors to service several countries under a single contract are recommended. NEPAD and the Regional Economic Communities should develop projects and mobilize resources for this purpose.
- The use of commodity exchanges to enhance trade in food commodities is still in its infancy in Africa; the Johannesburg Securities Exchange is the exception. Similar exchanges have been established in some other African countries but are not yet fully operational. The Regional Economic Communities should organize capacity-building support for existing exchanges and encourage new exchanges in their communities, with emphasis on encouraging trade in commodity options as an instrument of food-security policy.

### 31. Risk insurance:

- Insurance instruments can in future play a significant role in stimulating production, stabilizing supplies and enhancing trade in food commodities. Crop insurance has not been very successful, but weather-based risk insurance holds considerable promise. NEPAD should build on work being undertaken by several institutions, including the World Bank and WFP, on a composite index as a basis for weather-based risk insurance that could provide protection against exceptional food shortages. In collaboration with the Regional Economic Communities, NEPAD could seek partners to initiate pilot schemes in interested countries.

