FOOD AID, FOOD PRODUCTION AND FOOD MARKETS IN SWAZILAND

An Analytical Review

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Table of Contents

Acknowledgements 4
Table of Contents 2
Table of Figures 4
Acronyms 5

Executive Summary 6

PART I: INTRODUCTION

1. Introduction 10
   1.1. Background to the Review 10
   1.2. Objectives of the Review 12
   1.3. Methodology and Scope of the Review 13

PART II: OVERVIEW OF COUNTRY SITUATION

2. Overview of Country Background 15
   2.1. Socio-Economic Conditions 15
   2.2. Agricultural Sector 16
   2.3. National Food Security Policy and Strategies 17
   2.4. Government’s Policy on Utilisation of Food Aid 17
   2.5. Domestic Food Production and Food Imports 18
   2.6. Domestic Food Markets and Infrastructure 19
   2.7. Market Structure for Maize 20
   2.8. Analysis of Price Trends for Maize 21

3. National Food Security & Food Aid 23
   3.1. Food Security Situation 23
   3.2. Role of Food Aid 24
   3.3. Food Assistance Programmes 25
   3.4. WFP’s Activities in the Country 25
PART III: MAIN FINDINGS

4. Stakeholder Perspectives 27
   4.1. Stakeholder Perceptions & Emerging Issues on Food Aid 27
   4.2. Stakeholder Perceptions & Emerging Issues on Food Production 28
   4.3. Stakeholder Perceptions & Emerging Issues on Food Markets 28

5. Analysis of Impact of Food Aid 29
   5.1. Impact on Local Food Production 29
   5.2. Impact on Local Food Markets 30

PART IV: CONCLUSIONS & RECOMMENDATIONS

6. Concluding Remarks and Recommendations 32
   6.1. Operational Recommendations 32
   6.2. Policy Recommendations 33

References 34
Annex I List of Interviewees and Stakeholders consulted 35
Annex II Establishing Food Market Intelligence Systems 36
Annex III Terms of References for the Review 38
Acknowledgements

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Table of Figures

Figure 1: Swaziland Maize Production 1997 – 2004 18
Figure 2: Maize Imports and Local Purchases by NMC 1999/2000-2003/2004 20
Figure 3: Market Structure for Maize in Swaziland 21
Figure 4: Domestic Maize Wholesale Prices in Comparison to SAFEX Prices 22
Table 1: Domestic Cereal Balance Sheet 24
# LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACAT</td>
<td>Africa Cooperative Action Trust</td>
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<td>AGOA</td>
<td>African Growth Opportunity Act</td>
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<td>AU</td>
<td>African Union</td>
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<td>CANGO</td>
<td>Coordination Assembly of Non-Governmental Organisations</td>
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<td>CSO</td>
<td>Central Statistics Office</td>
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<td>DMTF</td>
<td>Disaster Management Task Force</td>
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<td>EMOP</td>
<td>Emergency Operation</td>
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<td>EU</td>
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<td>FAO</td>
<td>Food and Agriculture Organisation</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>Ha</td>
<td>Hectare</td>
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<td>LDS</td>
<td>Lutheran Development Services</td>
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<td>MCH</td>
<td>Mother and Child Health</td>
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<td>MOAC</td>
<td>Ministry of Agriculture and Cooperatives</td>
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<td>MOEPD</td>
<td>Ministry of Economic Planning and Development</td>
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<td>MT</td>
<td>Metric Tonnes</td>
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<td>NAMBoard</td>
<td>National Agricultural Marketing Board</td>
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<td>National Disaster Task Force</td>
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<td>Non-Governmental Organisations</td>
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<td>National Maize Corporation (Pty) Ltd</td>
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<td>Needs Assessment Unit (WFP Operations Department)</td>
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<tr>
<td>PRRO</td>
<td>Protracted Relief and Recovery Operation</td>
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<td>SADC</td>
<td>Southern Africa Development Cooperation</td>
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<td>SNL</td>
<td>Swazi Nation Land</td>
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<td>TDL</td>
<td>Title Deed Land</td>
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<td>World Food Programme</td>
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EXECUTIVE SUMMARY

The analytical review of food aid, food production and food markets in Swaziland was undertaken on the initiative of WFP Country Office to clarify issues on a long running debate in the country that food aid was disrupting markets and creating disincentives to production. In this context, the review set out to establish if and to what extent food is impacting negatively on food markets and food production in Swaziland.

The approach of the review entailed analysis of secondary information and primary data collected through consultations, interviews and focus group discussions with stakeholders and key informants that included; beneficiaries of food assistance programmes, WFP implementing partners, farmers, food traders, agricultural input traders, etc...

Swaziland is a landlocked country with an open economy that is closely linked to the South African. Over 60% of the country’s population depends on agriculture as a source of income but the sector only contributes 12% to the total GDP. In the past 3-5 years, recurrent droughts, erratic rains and reduction in migrant labour force to South African mining industry have significantly affected the economy. Agricultural production is largely small scale, subsistence, and lack of ownership rights by the majority of subsistence farmers restricts investments that would boost agricultural production.

Given that the country’s food production covers less than 35% of national total requirements, much of the food is imported. During crisis periods of especially droughts and erratic rains when production is greatly hampered, the domestic food deficit is exacerbated beyond capabilities of covering it solely through commercial food imports. During such situations, Government resorts to food aid as supplement to commercial food imports to cover domestic food gaps.

The Swazi staple food is maize and its production constitutes over 95% of the country's entire cereal production. However, maize production in the country has exhibited a trend of long-term decline from a high of almost 140,000MT in 1997 to just half the amount in 2004. Productivity is low and input costs are comparatively higher than in neighbouring South Africa thereby raising production costs for the Swazi farmer and lowering competitiveness of his/her produce. Besides, maize
importation into the country remains a state monopoly. Maize is imported through the state-owned National Maize Corporation established in 1985.

The World Food Programme and the National Disaster Task Force (NDTF) are the two primary agencies running food assistance programmes in the country. Since January 2005, WFP has been implementing a Protracted Relief and Recovery Operation (PRRO) in Swaziland. The PRRO is planned to reach an average of 250,000 beneficiaries per annum over the three-year period through the distribution of 49,141MT of food commodities. The activities include general food distribution, which was scaled down in early 2005; food-for-work and food-for-training activities; support to HIV/AIDS infected and affected households; school feeding programmes; MCH/Nutrition projects and other vulnerable group feeding programmes.

In the course of assessing possible food aid impacts on the domestic food market and food production, the mission gathered opinions from stakeholders consulted during meetings and interviews. The gathered opinions were not facts per se, but represented a variety of views about food aid (both positive and negative) that range from perceptions or hearsays to facts based on logical deductions, observations and experiences.

Views and opinions that related to food aid included;

- a consensus on need for food assistance to address food requirements of most vulnerable;
- drought, poverty and HIV/AIDS as major factors to food insecurity in the country;
- possibility of significant inclusion/exclusion errors in food aid distribution to beneficiaries;
- free food aid causing dependency among beneficiary households;
- national estimates of food production, deficit and vulnerable population disputed;
- VAC’s capacity weak and inadequately supported;
- insufficient collaboration among stakeholders on food security issues;
- lack of a common tracking system of food aid flows in the country;
- Lack of a common assessment and monitoring system for food needs; and
- readiness among able bodied beneficiaries to work for their rations;

Stakeholder views that related to food production in the country included;
• high production costs for maize (staple food);
• low productivity in agriculture;
• land tenure system not supportive of increased agricultural investments;
• inadequate on-farm storage capacities;
• limited progress with introduction of drought tolerant crops; and
• Inadequate capacity to support agricultural extension system

Stakeholder views that related to domestic food market included;
• high domestic food prices;
• controlled producer prices for maize;
• controlled maize import market (NMC monopoly);
• high farm input costs; and
• WFP and other donors are not procuring enough food aid locally;

The outlined opinions provided a starting point for the analysis where they were examined in detail basing on data and information gathered during the mission. The major conclusions of the analysis were that;
• a large domestic cereal gap, persistent drought, the impact of HIV/AIDS and reduced employment opportunities have necessitated provision of food assistance to the most vulnerable to address food insecurity in the country;
• total cereal food aid in Swaziland constitutes about 29% (WFP 17% & others 12%) of the domestic cereal gap. This magnitude is sizeable enough to influence domestic demand for maize if food aid is not appropriately targeted;
• targeting of food aid remains problematic reflecting weaknesses in assessments and targeting criteria, leading to inclusion errors and possible market displacement and disincentives to food production.; and
• low productivity and high production costs (input costs) have made Swazi farmers uncompetitive and hindered significant local purchases by food aid agencies.

Based on the analysis and the conclusions above, the following recommendations were made to address both the short-term problems that seemed to emanate from operational aspects of food assistance activities and the medium to long-term structural problems that largely emanate from policy aspects of food security planning.
Operational recommendations include;

- need for improved targeting mechanisms (targeting the most needy to avoid market distortions and disincentives to food production);
- need to strengthen food-for-work, skills training programmes and income generating projects for able-bodied beneficiaries to reduce dependency;
- MOAC, WFP and FAO to spearhead planning and implementation of food-for-assets, skills training and income generating projects to boost household food security; and
- in cases of competitive domestic prices and adequate supply, WFP and other donors should consider increasing local food procurement quantities;

Policy recommendations include;

- need to review Government policies on agricultural inputs and product pricing and marketing (review the farm input supply and produce marketing systems, support to farmer cooperatives, affordable loan schemes for farmers and agricultural processors, and research and extension services);
- need to strengthen VAC’s capacity and mainstream it into Government institutional set-up
- need to improve collaboration among stakeholders on food security issues (MOAC, WFP, FAO, NDTF, NAMBoard, NMC, VAC, Swaziland Farmers’ Association and others stakeholders from private sector and NGO community); and
- need to maintain in-country food reserves/buffer stocks (not necessarily physical) of at least 2 months cereal requirements for emergency purposes.
PART I INTRODUCTION

1.0 Introduction

This report presents the findings of an ‘analytical review of food aid and food markets’ in Swaziland that was conducted between the 1st and 12th of October 2005. The Review was jointly undertaken by the Economic Analysis & Development Policy Unit (PDPE) and ODAN (SENAC)/Southern Africa Regional Bureau on the request of the WFP Country Office in Swaziland in response to a long running debate that food aid was disrupting markets and creating disincentives to production, often with specific reference made to WFP assistance programmes.

These perceptions have received wide coverage in the national media, which most stakeholders (Government departments, parastatals, the private sector and food aid agencies) have extensively used to exchange differing points of view. The media exchange contributed little towards a constructive dialogue to identify the problems, their causes and solutions. In the light of this, the WFP Country Director requested for technical support in the form of an analytical review to shed light on the situation with a view to developing strategies to address perceived problems.

With regard to the presentation structure of the situation analysis and review findings, the general report layout is as follows. The next section gives a background review of the issues, followed by a discussion of the objectives, the methodology and scope of the review. The rest of the report is organised into three parts (II-IV). Part II gives the Overview of Country Situation, which consists of the socio-economic country background and national food security & food aid including discussions on the food security situation, the role of food aid, food assistance programmes and WFP’s activities in the country. Part III features the Main Findings separated into Stakeholders’ Perceptions and Analysis of Impact. It first summarises the main perceptions on the impacts of food aid and then provides the analysis of these perceptions in the light of the evidence from the consultations and fieldwork. Part IV presents the main Conclusions and Recommendations of the review.

1.1 Background to the Review

Since 2004, local newspapers have featured articles on the negative impact of food aid. For example, an article in The Times of Swaziland (March 7, 2005) captioned

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1 The Terms of Reference for the Review is presented in Annex III
‘WFP prefers SA firm to Ngwane Mills’ in reference to the winning of a WFP contract by a South African company. The article quotes a letter from Ngwane Mills to the National Maize Corporation (NMC) that stated, “While we fully support the efforts of WFP in the country, the ongoing food aid programme in the country has had detrimental impact on our maize milling volume”. In the same article, a letter from NMC to the Ministry of Agriculture about the issue was also quoted. The letter stated that “the decision by WFP will have far-reaching effects on the country’s maize industry, particularly NMC and millers”, adding that “Whilst we are concerned about the importation of the whole maize, the importation of maize meal ‘kills two birds with one stone’ in that it does not only attack the farmer by displacing his product, it also destroys his market (the miller)” (p.2). The Times of Swaziland (4th August 2005, p.17) quoted the Minister of Agriculture: “NMC is faced with a serious market problem because there is no market for their maize. People and donors purchase maize in South Africa where it is cheaper; therefore NMC is being compelled to seek ways of reducing the price”.

These are classic views expressed about food aid in non-emergency operations, where its appropriateness is often questioned with the main contention on perceived negative impact on domestic food production, processing and food markets. The thrust of the argument is often that large quantities of imported food raise aggregate food supply on domestic markets, depress domestic prices and thereby create production and market disincentives. Price distortions caused by shifts in the supply/demand balance are believed to make it unprofitable for traders to move food from surplus to deficit areas, hold food stocks, i.e. to take risks that would ensure supply in locations and periods of potential scarcity. These are also believed to translate into disincentives to domestic food production, since producers in surplus areas would not be able to sell their products and therefore forced to cutback production in the following season(s).

Perceptions of negative effects of food aid rest on various explicit and implicit assumptions. One of the key issues for the review has been to establish the degree to which these assumptions hold true for the case advanced in Swaziland. It is the examination of these assumptions that can shed some light and help establish the validity of issues in the debate. The principal assumptions often include the following:

- Total amount of food aid flows into the country is significantly large enough to raise aggregate supply and thereby depress local prices;
- The country has combined production and commercial import capacities high enough to meet domestic requirements;
- Importation of food aid beyond a certain threshold would disrupt the supply-demand balance;
- Markets for food are well developed and function well, and are therefore capable of moving food from surplus to deficit regions and address food access concerns;
- Household recipients of food assistance ordinarily purchase a large proportion of their food requirement; distribution of ‘free food’ would therefore result in reduction in market demand and thereby affect prices.

On the other side of the debate, food aid is often regarded useful for meeting the needs of households that would not normally afford food through markets. It is also argued that food aid can help to stabilize or moderate prices and ensure access to poor households. A review of some 34 recent studies on disincentives, distortions, displacement and dependency effects of food aid failed to find strong empirical evidence in support of the hypothesis that food aid significantly displaces domestically produced food on recipient country markets (Awudu Abdulai, 2005). It is also argued that in sub-Saharan Africa where balance of payments and working capital constraints are binding at macro and household levels, it is plausible that food aid’s contemporaneous displacement of food purchases might foster productive investments that generate significant dynamic gains from food aid.

1.2 Objectives of the Review
The main objective of the review is to establish if, and to what extent, food aid is impacting negatively on food markets and domestic food production in Swaziland. Specifically, it seeks to analyse the national structure, practices and policies of food production, food marketing/ trade and food aid, and the nature and practice of food assistance programmes in the country.

The findings of the review are intended to shed light on potential or real impact of food aid that would help galvanise a shared approach by stakeholders to address outstanding issues that relate to this. It is hoped this will among other things lead to:
- Improving WFP’s strategic planning of food aid interventions in the country;
- Clarifying concerns of any negative impact of food aid;
- Identifying approaches of food assistance that minimise negative impacts; &
• Strengthening of WFP Country Office’s market intelligence and food situation analysis

1.3 Methodology and Scope of the Review
The approach entailed a combination of a review and analysis of secondary information; and primary data collection through consultations, interviews and focus group discussions with stakeholders and key informants. This also included field visits in areas of food production as well as areas in which food assistance programmes are being implemented. The latter also included visits to local markets to establish how they are organised, the commodities traded and price levels.

Desk Review: The starting point was a review of background information on the issues in the debate and literature on matters relating to food aid assistance in the country. Some of the documents reviewed included domestic media reports over the past one year, Government documents on policies and strategies for national food security, WFP documents etc..

Stakeholder Consultations: Meetings and interviews were held with key government institutions (MOAC, MOEPD, NDTF, NMC, NAMBoard, CSO, VAC), UN agencies (WFP, UNDP, UNICEF), Donors (EU, USA), NGOs (WVI, ACAT, SC-SWZ, LDS), and the private sector (Ngwane Mills ltd, Universal Milling co. ltd, Farm Chemicals ltd, Swaziland Farmers Association). Central to the discussions was the establishment of the need to get a general understanding of the food security situation in the country and point of view (or perceptions) on the role of food aid, and its practice in the country. The discussions were cast within the framework of each institution or agency’s function or mandate.

Field Level Consultations: Interviews were also held at field level with beneficiaries of food assistance programmes, farmers, agricultural inputs traders, WFP field monitors, staff of WFP's implementing partners and food traders in a number of locations. The interviews were based on a checklist adapted to different stakeholders aimed at obtaining specific information. For example, with beneficiaries of food aid, the interviews were geared towards establishing the duration of assistance, ration scale, other livelihood options, their future expectations, the management of food assistance (including selection of beneficiaries and the conduct of distribution) among others. The main places visited included Sipophanen, Lavumisa, Kaphunga, Kholwane, Ngwavuma, Ngwempisi, etc...
At the end of field level and stakeholder consultations, the mission team compiled a preliminary report on its findings. The report was presented at a well-attended debriefing meeting that was convened by the WFP Country Director. All stakeholders were represented and preliminary findings exhaustively discussed. Stakeholders thanked WFP to the initiative and agreed to continue with the practice and develop it into a forum where views on food security would be exchanged on a regular basis.

**Scope & Limitations of the Review:** The administrative and logistical arrangements for the review were well organised and the Mission received full support from the WFP Country Director and his staff. Meetings and fieldwork were also planned in advance of arrival of the Review Team ensuring most meetings scheduled with key stakeholders took place. The meetings, interviews and focus group discussions were very candid and constructive. Stakeholders freely expressed their feelings and perceptions as well as engaged in open discussion on alternative viewpoints.

However, like most studies and reviews, there were some limitations. This included the short duration for the review, with field visits undertaken only in two days. Consequently, there were fewer interviews with beneficiaries and farmers, lasting shorter periods than would have been desirable. The geographic coverage was also limited. These have limitations on the extent to which the findings can be used to draw firm conclusions on the overall situation in the country. Although the field trip proceeded broadly according to plan, some interviews were cancelled due to time factor while alternative beneficiary interviews were conducted instead of those initially planned.
PART II  OVERVIEW OF COUNTRY SITUATION

2.0 Overview of Country Background
Swaziland is a constitutional monarchy with a bi-cameral parliament consisting of the House of Assembly and the Senate. The King as the head of state appoints the Prime Minister and elections for parliament are conducted through the traditional electoral system, Tinkhundla. The Tinkhundla system has been reformed to allow for a two stage legislative election, including secret ballots at the second stage.

According to the 2004 UNDP Human Development Report, Swaziland ranks 147 out of 177 countries. Although classified under the low human development category of countries, Swaziland has a Gross Domestic Product (GDP) per capita of US$ 1,669 (equivalent to US$ 4,726 in purchasing power parity terms) that is well above the sub-Saharan average of US$ 633 (US$ 1,856 in purchasing power parity terms). The country’s economic performance is susceptible to variations in weather patterns, which in the recent past have caused significant seasonal food insecurity.

2.1 Socio-Economic Conditions
Swaziland is a small landlocked country with an ‘open’ economy that is closely linked to South Africa. South Africa is the leading trade partner, absorbing over 90% of Swaziland’s total exports. South African exports also constitute over 50% of Swaziland’s annual imports. The national currency (Lilangeni) is pegged at par to the South African Rand and the economy has one of the lowest inflation rates in the region. Swaziland is a member of the Southern African Customs Union (SACU), which brings together Botswana, Lesotho Namibia, Swaziland and South Africa into a free trade economic zone with common external tariffs on imports from outside the zone.

Over 60% of Swaziland’s population depends on agriculture as their major source of income, but the sector only contributes 12% to the total (GDP). Services and industry sectors constitute 36% and 52% of the total GDP, respectively. In the past 3-5 years, recurrent droughts, erratic rains, and reduction in migrant labour force to the South African mining industry have significantly affected the economy. The emergence of East Asian competitors on the American textile market from which Swaziland has been benefiting through the African Growth Opportunity Act (AGOA)

2 World Bank, World Development Indicators database, Washington August 2005
is also expected to impact on the country’s export revenues and the domestic employment market. AGOA created preferential arrangements for African exports to access American markets.

According to the Central Statistics Office, 78.7% of Swaziland’s population is below 35 years of age and 76.9% of the population live in rural areas. Swaziland is one of the countries worst affected by the HIV/AIDS pandemic, with infection rates of 42.6% among the sexually active adults (aged 19-49 years) according to the Swazi Ministry of Health sentinel survey. There is a strong indication that the HIV/AIDS pandemic is contributing to the decline in the performance of the country’s largest employment sector (agriculture), especially on the production of maize (the staple food) that appears to be on a long-term decline, putting the country’s food security at risk.

2.2 Agricultural Sector
Swaziland’s economy is still largely based on agriculture and agro-based industry. The share of agriculture in the country’s GDP has been declining since independence and currently stands at about 12%. The main products include sugarcane, maize, citrus fruits, cotton and forestry products. Overall productivity in the agriculture sector has remained low, in part reflecting the dominance of subsistence production. The main exports are soft drink concentrates, wood pulp and sugar.

The country has varied agro-climatic conditions. The Highveld has very favourable conditions and agricultural production is higher in this area than in the Middleveld that has average production conditions. At the other extreme of poor production are the drier Lowveld and the Lubombo plateau.

Swaziland has two types of land tenure system, the Swazi Nation Land (SNL) and the Title Deed Land (TDL) that constitute 60% and 40% of total land area, respectively. The SNL is a communal tenure held in trust by the king, and controlled and allocated by chiefs according to traditional arrangements. Land in this category is largely used for subsistence production. The lack of ownership rights in this system of tenure restricts investment that would otherwise boost agricultural production. On the other hand, the TDL which is mainly freehold, is largely used for commercial

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farming. At the time of this review, Government had submitted a land reform bill to parliament for consideration.

2.3 National Food Security Policy and Strategies
In September 2005, the Ministry of Agriculture and Cooperatives (MOAC) drafted a national food security policy for Government’s approval and adoption. The long-term goal of the draft policy is to ensure that “All people in Swaziland at all times have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life”.

The stated objectives of the draft policy are:

- To ensure that a sufficient quantity of food of appropriate quality is available to all people in Swaziland, through domestic production and imports;
- To ensure that there is access by all individuals in Swaziland to adequate resources (entitlements) to acquire appropriate foods for a nutritious diet;
- To ensure that all individuals in Swaziland reach a state of nutritional well being for which all physiological needs are met; and
- To ensure that all people in Swaziland have access to adequate food at all times.

The Government’s new strategy towards national food security includes;

- boosting domestic food production, ensuring adequate food imports (commercial and food aid) and creating an enabling environment for adequate food supply to guarantee food availability;
- improving access to production resources and appropriate foods through promoting alternative rural livelihoods, agro-processing etc… to guarantee food accessibility;
- promoting health care, sanitation and nutritionally balanced diets, combating malnutrition and ensuring national food and nutritional standards to guarantee proper food utilisation; and
- establishing food reserves, improving disaster preparedness and response, adapting to climatic change and facilitating reliable food distribution systems to guarantee a stable and equitable food supply.

2.4 Government’s Policy on Utilization of Food Aid
The Government of Swaziland is keen on utilising food aid to bridge deficits during crises. Given the fact that domestic food production covers less than 35% of total food requirements in the country, much of the food in the country is imported. In crisis
periods of especially droughts and erratic rains that cause crop destruction, the domestic food deficit is exacerbated beyond capabilities of being covered solely through commercial food imports. In such situations when the hungry are unable to feed themselves and their families, the Government resorts to food aid as a supplement to commercial food imports to cover domestic food gaps. On the other side, Government is also very wary of potential negative repercussions of poorly programmed food aid interventions on domestic food production and food markets. The draft food security policy envisages establishing policy and operational measures that would prevent such repercussions.

2.5 Domestic Cereal Production and Cereal Imports

Cereal production in Swaziland is predominantly maize, which constitutes over 95% of the country’s cereal production. Other cereals produced (on much smaller scale) include sorghum and rice. For this reason, the analysis here is based on maize, which would appear to reasonably capture the status of cereal production and imports into the country.

**Figure 1: Swaziland Maize Production 1997 – 2004**

![](chart.png)

Maize production in the country has been established to exhibit a trend of long-term decline (see Figure 1). The negative trend is especially well manifested in the drier Lowveld and Lubombo plateau. Majority of maize farmers are small-scale subsistence farmers whose productivity is very low, with average yields of less than
2MT per hectare. Commercially oriented maize producers in the more agriculturally productive Highveld areas have comparatively higher average yields of about 6MT per hectare. In general, however, average productivity in Swaziland is significantly lower than in South Africa. All inputs for maize production (hybrid seeds, fertilizers, pesticides, etc.) are imported from South Africa. They are significantly more costly in Swaziland than in South Africa thereby raising production costs of Swazi farmers. This partly explains why Swazi maize is comparatively more expensive. The situation is compounded by persistent unfavourable climatic conditions; the country has experienced successive droughts and erratic rains in the past five years.

Although the Swazi economy is generally open, maize importation into the country remains a state monopoly. Maize is imported through the state-owned National Maize Corporation established in 1985. NMC was established with the objectives of guaranteeing market to local maize producers at competitive prices while at the same time providing good quality maize to Swazi consumers at affordable prices (i.e., protect farmers and at the same time stabilise markets).

Swaziland’s domestic production only covers about 47% of the nation’s maize/cereal requirements⁴. The maize/cereal gap is predominantly covered through commercial imports averaging 32% of the domestic cereal gap (about 17% of the national cereal/maize requirement). During the years taken into consideration (2002-2005), cereal food aid deliveries featured predominantly in the coverage of the country’s maize/cereal gap following Government’s appeal to the international community to assist with the impact of 2001/02 drought and successive droughts and erratic rains on the country’s food production.

2.6 Domestic Food Markets and Infrastructure

Although maize/cereal importation into the country is regulated by NMC/NAMBoard, the domestic food market in general, is liberalised and market forces determine food prices. Free food market has contributed to the availability of food. However, accessibility to food by the vulnerable and poor due to low purchasing power is the main problem. Figure 2 below shows that the large bulk of NMC purchases of maize are imports from South Africa. Moreover, the proportion of domestic production contributing to the total national maize supply fluctuates from year to year, reflecting weather-induced variations in production.

⁴ See Table 1 (Domestic Cereal Balance Sheet based on annual average estimates 2002-2005)
In attempt to protect domestic maize farmers against competition from cheap maize from South Africa and elsewhere, the Government sets a minimum (floor) price that NMC has to offer farmers. However, farmers are also free to sell their maize produce to alternative buyers that might offer higher prices.

The small size of the country and a relatively adequate road network has ensured connectivity among domestic food markets. This is well demonstrated by low variation in market prices of food in different parts of the country. The main constraints however for a more efficient flow of food from surplus regions in the Highveld to perennial food deficit areas in the Lowveld include high transportation costs and weaker purchasing power among consumers in the deficit areas. The inadequate transportation capacity coupled with high fuel costs has lead to the rise in transportation costs thereby affecting marketing of produce. To minimise the effect of high transportation costs, NMC provides free transport from maize producing areas to its central silos in Matsapha.

2.7 Market Structure for Maize

Figure 3 depicts the structure of maize marketing in Swaziland, where marketing of maize grain and milling in are dominated by few companies. As indicated earlier, grain importation is the monopoly of NMC. When NMC offers competitive prices
above the Government set floor prices, most farmers opt to sell their grain to the parastatal. Farmers are not obliged to sell their produce only to NMC, but have the choice to sell to whoever offers the best price among NMC, private grain traders or the millers.

Two large-scale millers; Ngwane Mills Ltd and Universal Milling Company that respectively account for 60% and 25% of the market share and therefore dominate maize milling. The retail market for maize flour is a more competitive business. Large shopping houses in urban areas and small stores in rural areas sell to consumers at prices that do not differ significantly after discounting transportation costs.

2.8 Analysis of Price Trends for Maize

Figure 4 shows the wholesale prices for maize grain in Swaziland and the South African Futures Exchange for agricultural markets (SAFEX). Both prices follow a similar trend reflecting a degree of integration of Swazi maize market with the South African.

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5 Data used in Figure 4 relates to annual average prices for white maize grain.
The hike in prices during 2002 reflects the impact of the 2001/02 southern Africa drought on maize production in the region. Since then, prices for maize grain have been on a general decline but remain higher than the pre-drought prices in Swaziland. The average percentage difference of 37% between SAFEX and domestic wholesale prices (2002 to 2005) constitutes NMC’s transaction costs and profit margin. It is worth noting that whenever possible NMC offers an equivalent of the prevailing import parity price when procuring from farmers.
3.0 National Food Security and Food Aid

The Government of Swaziland is signatory to a number of global commitments related to fighting hunger and improving food security. The global obligations that the Government has committed itself to include; the Rome Declaration on World Food Security, the UN Millennium Development Goals, the UN Convention to Combat Desertification, the African Union (AU) Maputo Declaration on Agriculture and Food Security in Africa and the SADC Dar Es Salaam Declaration on Agriculture and Food Security.

To fulfil its commitments towards boosting food security in the country, the Government has adopted strategies and is implementing a series of programmes and activities that contribute towards national food security. These include the Smart Programme on Empowerment and Economic Development, the National Development Strategy, the Poverty Reduction Strategy and Action Plan, the National Disaster Management Plan, the Comprehensive Agricultural Sector Policy (meant to ensure that Agriculture including forestry and fisheries, contributes fully to economic growth, food security, poverty alleviation, and sustainable natural resources management), among others.

3.1 Food Security Situation

The FAO/ WFP Crop and Food Supply Assessment Mission in May 2005 estimated domestic maize production to be just over 82,000 metric tons, which is 10% above last year’s production but 6% below the five-year average. From a longer-term perspective, production in 2002-2005 averaged about 72,500 MT [or 46.5% of the average total requirement of 156,000mt during the same period (see Table 1)]. Meanwhile estimates of the number of persons believed to be food insecure range between 250,000 and 300,000 persons. This represents 23-27% of the total population of 1.1 million people. The state of food insecurity also reflects unequal distribution of income; Swaziland has a Gini-coefficient of 60.9% indicating high income-inequality.

Table 1 also shows an annual average maize/cereal gap of about 53% (83,500mt), which is in part covered through commercial imports averaging 32% of this gap (or 17.2% of total requirement). Other sources of food to cover the remaining gap

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6 UNDP Human Development Report, New York, 2005. A value of 0 represents perfect equality, and a value of 100 perfect inequality in the distribution of national wealth/income among the population.
include food aid, of which average annual WFP cereal food aid deliveries represented 16.8% of the gap (9% of total requirement). Cereal food aid flows from other sources constituted 12% of the gap or 6.4% of total requirement. It is therefore evident that cereal food aid deliveries featured predominantly in filling the country’s maize/cereal gap during this period. Presumably, the unmet cereal requirement of 20.9% is partly covered through domestic production of other minor cereals like sorghum and millet and or through informal cross border cereal trade. A significant proportion of the unmet cereal requirement possibly remains unmet thereby contributing to an increase in the country’s undernourished population from 14% in 1990/92 to 19% in 2000/02.

Table 1: Domestic Cereal Balance Sheet

<table>
<thead>
<tr>
<th>Annual Average Estimates (2002-2005)</th>
<th>Quantity / MT</th>
<th>Percentage Total Requirement</th>
<th>Percentage Domestic Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total maize/cereal requirement</td>
<td>156,000</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td>Domestic maize production</td>
<td>72,500</td>
<td>46.5%</td>
<td></td>
</tr>
<tr>
<td><strong>Domestic maize/cereal gap</strong></td>
<td><strong>-83,500</strong></td>
<td><strong>53.5%</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td>Commercial maize imports</td>
<td>26,900</td>
<td>17.2%</td>
<td>32.2%</td>
</tr>
<tr>
<td><strong>WFP cereal food aid deliveries</strong></td>
<td><strong>14,000</strong></td>
<td><strong>9.0%</strong></td>
<td><strong>16.8%</strong></td>
</tr>
<tr>
<td><strong>Cereal food aid flows from other sources</strong></td>
<td><strong>10,000</strong></td>
<td><strong>6.4%</strong></td>
<td><strong>12.0%</strong></td>
</tr>
<tr>
<td><strong>Net cereal balance</strong></td>
<td><strong>-32,600</strong></td>
<td><strong>20.9%</strong></td>
<td><strong>39.0%</strong></td>
</tr>
</tbody>
</table>

Source: FAO/WFP Crop and Food Supply Assessment Mission Reports 2002-2005

3.2 Role of Food Aid

The importance of food aid in the country is well recognised and stressed by key Government departments, most especially in covering the needs of affected populations during crises. The main factors that are widely recognised to warrant food aid include production failure due to the chronic drought situations and erratic rains, the HIV/AIDS pandemic and poverty that impede access to food. Besides, Swaziland is traditionally a net-food importing country that largely relies on food imports to cover its food deficit. This exposes the country’s food security to being susceptible not only to natural disasters but also to economic fluctuations. In normal circumstances, the nature of food insecurity in Swaziland tends more to be a food accessibility problem rather than its unavailability. However, during economic downturns and unfavourable weather conditions that impede food production, many of the vulnerable fail to feed themselves and their families, thereby necessitating

\[7\] ibid
Government response in the form of food aid directly from its own resources or through request for assistance from the international community.

### 3.3 Food Assistance Programmes in Swaziland

The World Food Programme and the national Disaster Management Taskforce (DMTF) primarily manage food aid programmes in Swaziland. In the past, the European Union also provided some food aid to Swaziland. WFP and DMTF collaborate closely in various planning aspects; though independently implement their respective assistance programmes. Field implementation of food assistance activities is generally done through various NGOs and other implementing partners. The mode of implementation and type of activities supported can differ significantly depending on the implementing agency, type of beneficiaries and area.

### 3.4 WFP Activities in the Country

WFP undertook a major food aid programme in Swaziland in response to the 2001/02 drought that resulted in widespread crop failure affecting most of Southern Africa. The situation was accentuated by the HIV/AIDS pandemic, chronic poverty and economic decline that threatened the lives and livelihoods of an estimated 13 million people in the region. WFP carried out Emergency Operations (EMOP) in the region from 2002 until the end of 2004, providing 1.3 million MT of emergency food aid to 10 million people, with 250,000 of them in Swaziland. Since January 2005, WFP has also been implementing a three-year protracted relief and recovery operation (PRRO) aimed at improving food security, enhancing livelihoods and rebuilding productive capacity of the vulnerable, including HIV/AIDS infected and affected people in the six southern African countries.

In Swaziland, the PRRO is planned to reach an average of 250,000 beneficiaries per annum over the three-year period through the distribution of 49,141MT of food commodities. The activities include general food distribution, which was scaled down in early 2005; food-for-work and food-for-training activities; support to HIV/AIDS infected and affected households; school feeding programmes; MCH/Nutrition projects and other vulnerable group feeding; and targeted food distribution programmes.

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8 Other countries affected included Lesotho, Malawi, Mozambique Zambia and Zimbabwe.

- increasing household food access and ability to manage shocks;
- reducing the impact of HIV/AIDS on food security among vulnerable populations in high-priority districts;
- meeting the nutrition needs of vulnerable groups; and
- sustainably increasing school enrolment, attendance and ability to learn and concentrate, while reducing gender disparity.
PART III: MAIN FINDINGS

4.0 Stakeholder Perspectives
This section represents a summary of opinions that were expressed by individuals and institutions consulted during the meetings/ interviews. They are not facts per se, but represent a variety of views about food aid (both positive and negative) that range from perceptions or hearsays to facts based on logical deductions, observations and experience. The purpose here is to document them as a starting point for analysis in chapter 5 where they are examined in detail in the light of the evidence available. For convenience of presentation and clarity, the perspectives are grouped and discussed under three categories – food aid, food production and food markets – they overlap and should not be seen in isolation.

4.1 Stakeholder Perceptions & Emerging Issues on Food Aid
The overwhelming view from the interviews and discussions was that food aid is necessary in Swaziland to address food needs of vulnerable households. These households were broadly identified as those affected by drought, HIV/AIDS, and experiencing poverty. These conditions by themselves or in combination are widely viewed to be significantly causing food insecurity.

There were concerns expressed that some food aid was also being distributed to individuals and households that can support themselves and should not receive food aid (inclusion errors). This view was primarily from government officials, parastatals, farmer’s association and millers. However, at the field level there were also opinions that deserving households were in some cases excluded from distributions (exclusion errors). It was also alleged that free food aid was causing dependency among beneficiary households. Yet there was expression of readiness by able-bodied beneficiaries to work for their rations. This view was linked to disputes in the estimates of food production and deficit, as well as of the number of vulnerable population in need of assistance. A related issue was the view that the capacity of the national Vulnerability Assessment Committee (VAC) was weak and that it was inadequately supported. The VAC was on several occasions variously described to be dysfunctional, lacking an institutional home, and to be run in an ad hoc manner.

Linked to the latter point was the view that there was insufficient collaboration among stakeholders on food security issues. It was also alleged that there was lack of a
common tracking system of food aid flows in the country and lack of a common assessment and monitoring system for food needs.

4.2 Stakeholder Perceptions & Emerging Issues on Food Production

Wide ranging issues and perceptions emerged on production-related issues that have implications for food security. The general view was that the cost of maize production (the staple food) in Swaziland was very high. This was a view shared by MOAC officials, farmers’ association and individual farmers. Low productivity in the agricultural sector was equally widely shared, often in comparison with South Africa.

There were frustrations expressed at the land tenure system as not being supportive of increased investments and contributing to the low productivity discussed above. Farmers expressed that they lack adequate on-farm storage capacities. It was also pointed out that there was limited progress with the introduction of drought tolerant crops in chronic drought areas and there was inadequate agricultural extension capacity. This was linked to views about limited resources for a more effective extension system.

4.3 Stakeholder Perceptions & Emerging Issues on Food Markets

The discussions on market related issues were particularly frank and candid. There was overwhelming consensus that consumer food prices in Swaziland were much higher than in South Africa. These were linked to the high cost of production in the country and low productivity in maize farming.

However, there were different perceptions about the producer prices for maize. Farmers and farmers’ association believe the Government-fixed floor prices are very low and should be raised. On the other hand, millers and consumers view the prices as being too high. Meanwhile the Government (MOAC, NAMBoard and NMC) view the fixed-floor prices as reasonable.

The importation of maize into Swaziland (from South Africa) is the monopoly of NMC. The millers are not happy because they could purchase maize more cheaply directly from South Africa and this would lower the cost of their raw materials and in turn of their products. Meanwhile WFP and other food aid agencies were repeatedly accused of not procuring enough food locally for their food assistance programmes in the country.
5.0 Analysis of Impact of Food Aid
To determine the impact of food aid on Swazi food production and food markets the mission analysed stakeholder perceptions and other emerging issues (given in chapter 4) on the subject against the background of field factual findings and mission observations. The analysis largely apportions the responsibility for the declining maize production in the country on the unfavourable weather patterns and government policies in place (that do not adequately support increased food production in the country). At the same time, the analysis suggests that the approaches adopted by some food assistance institutions and agencies in the country have in a number of instances given little attention to possible negative repercussions of their interventions.

Outcomes of the discussions with stakeholders on food security matters in the country and field interviews conducted with farmers, food traders, agricultural input suppliers and food aid beneficiaries, confirmed the consensus on the need for food aid in Swaziland. Justifications hereto included; a growing domestic cereal gap, recurrent droughts with erratic rains, the impact of HIV/AIDS and the reduced employment opportunities. These factors among others continue to necessitate provision of food assistance to the most vulnerable to address food insecurity in the country.

5.1 Impact on Local Food Production
The evidence points to structural and weather related factors as the primary causes for the declining maize production in Swaziland. The impact of food aid on production through its influence on food markets is analysed in the following section along with proposals for remedial measures. With regard to the decline in production, the mission found the following issues to be pertinent and requiring policy makers’ attention to reverse the trend;

- The unfavourable weather conditions (drought and erratic rains) in recent years that have significantly disrupted production (necessitating investments in irrigation systems and other water management systems);
- Limited progress in introducing drought tolerant crops to reverse the drought effect on household food production especially in the drier Lowveld and Lubombo areas;
- Low productivity among small scale farmers that dominate the maize production (i.e. 2-4 MT/Ha as compared to 8-12 MT/Ha in South Africa);
• The current land tenure system that does not motivate farmers (especially in SNL areas) to invest more in their land to improve productivity;
• The high maize production costs that have rendered Swazi maize farmers uncompetitive against the much cheaper imports from South Africa and elsewhere; (this factor has largely compromised the potential for significant local food purchases by food aid agencies); and
• The inadequate capacity to support the agricultural extension system for increased farm productivity and competitiveness.

5.2 Impact on Local Food Markets
As referred to earlier in sub-section 5.1, food aid also has the potential to disrupt food markets and impact negatively on the production if it is not well programmed. Total cereal food aid in Swaziland constitutes about 29% (WFP 17% and others 12%) of the domestic cereal gap. This magnitude is sizeable enough to influence domestic demand for maize if food aid is not appropriately targeted to the neediest.

On analysing issues raised by a range of stakeholders, the mission established that targeting of food aid by some institutions remains problematic reflecting weaknesses in assessment and targeting criteria. There is therefore a strong likelihood for this leading to inclusion errors and possible market displacement and disincentives to food production. However, the mission could not establish the extent of the latter as it would require a longer period of monitoring. WFP has taken the lead with regard to improving beneficiary targeting with its scaling down of general food distribution, and it is therefore hoped this will be adopted more widely among other food aid actors to mitigate the problems.

Basing on concerns raised by a range of stakeholders, another important aspect that was found to be hindering efficient programming of food assistance in the country is the political influence in the targeting of food aid. If food aid is manipulated for political ends, targeting is compromised and its potential to distort markets is heightened via high inclusion errors.

Other structural factors that the mission found to be negatively impacting on the domestic food markets include;
• High domestic food prices that foster food inaccessibility;
• Controlled producer prices for maize (Government pricing policies that are meant to protect farmers but in reality postpone the need to reform the sector and allow it gain competitiveness);\(^9\)
• Controlled maize import market (NMC monopoly); and the
• High farm input costs that significantly contribute to the high domestic produce prices.

\(^9\) But contrary to the notion of supporting farmers, the mission found evidence that farmers were refusing to sell their produce because prices offered by NMC were considered too low and therefore not acceptable to them
6.0 Concluding Remarks and Recommendations

Based on the fact that annual average cereal food aid deliveries to Swaziland between 2002 and 2005 constituted about 29% (WFP 17% and others 12%) of the domestic cereal gap, it should be acknowledged that this magnitude is sizeable enough to influence domestic maize markets if food aid is not appropriately targeted. However, the analysis shows that the declining maize production in the country largely emanates from the unfavourable weather conditions that physically affect production. Current agricultural policies are also not adequately addressing hindrances to increased food production in the country.

There is a likely (but not well established) negative impact of food aid on domestic food production and markets. In comparison with the drought and policy impacts, the effect of food aid on production is believed to be smaller and largely resulting from deficient targeting approaches used by some food assistance institutions and agencies in the country. Negative effects of food aid are manifested through inclusion errors but this is often too limited to be able to make a significant impact that is realisable beyond one season of production. However, the distortion effects on local food markets can be immediately noticed once the cases of inclusion errors become significant.

Recommendations are separated into operational aspects of food assistance activities to address short-term problems and the policy aspects of food security planning to address the medium to long-term structural problems.

6.1 Operational Recommendations

- Food aid institutions and agencies need to improve their targeting mechanisms to ensure that only the neediest, who lack access to food, are targeted. This will stem market displacement and distortion and avoid or minimise any potential disincentives to food production. As WFP has already taken a lead on this aspect, it should endeavour to share her experience with other food aid institutions and implementing partners in the country;

- The planning and implementation of food assistance programmes should be purely based on humanitarian grounds and free of any exogenous influences other than addressing needs of the most vulnerable; this particularly relates to political influences frequently mentioned by a significant cross-section of interviewed stakeholders;
In order to avoid any possible dependency of beneficiary households on free food assistance, food aid institutions and agencies should strengthen their support to food-for-work, skills training programmes and income generating activities for able-bodied beneficiaries;

The Ministry of Agriculture and Cooperatives, WFP and FAO should spearhead the planning and implementation of food-for-work, skills training and income generating projects to diversify rural livelihoods and boost household food security;

Under conditions of competitive domestic maize prices and adequate supply, food aid agencies and institutions should give consideration to procuring food locally from surplus areas to give a boost to domestic farmers.

6.2 Policy Recommendations

Government needs to review its policies on agricultural inputs and product pricing and marketing in a way that domestic farmers are protected in the shorter term, while they are given the chance to reform the sector and boost their competitiveness in the longer term. Some of the issues for consideration would include; reviewing the farm input supply and produce marketing systems that are dominated by oligopolies/monopolies; support to farmer cooperatives; provision of affordable loan schemes for both farmers and small scale agro-processors; and strengthening research (in local varieties) and extension services;

As a net food importing country, Government should consider establishing in-country food reserves/buffer stocks of at least 2 months cereal requirements. The reserves do not necessarily need to be physical but financial to be able to import timely from South Africa or elsewhere;

The bill on Land reform that has been tabled in parliament should be supported to improve the land tenure system that would in turn allow for increased investment in land and agricultural productivity;

Capacity of the National Vulnerability Assessment Committee (NVAC) should be strengthened and its entity mainstreamed into Government institutional set-up;

All major stakeholders on food security issues in the country i.e. MOAC, WFP, FAO, NDTF, NAMBoard, NMC, VAC, Swaziland Farmer’s Association and other stakeholders from the private sector and NGO community need to improve their collaboration through a forum that is convened regularly to openly discuss issues and exchange views that relate to national food security and food aid in the country.
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# ANNEX I

## LIST OF INTERVIEWEES AND STAKEHOLDERS CONSULTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Institution/Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Abdoulaye Balde</td>
<td>WFP Swaziland, Country Director and Representative</td>
</tr>
<tr>
<td>Ms. Catherine Feeney</td>
<td>WFP Swaziland Deputy Country Director and Representative</td>
</tr>
<tr>
<td>Mr. N.M. Nkambule</td>
<td>Principal Secretary, Ministry of Agriculture and Cooperatives</td>
</tr>
<tr>
<td>8 Officials</td>
<td>Ministry of Agriculture and Cooperatives</td>
</tr>
<tr>
<td>Mr. Lare M. Sisay</td>
<td>UNDP Swaziland, Deputy Resident Representative</td>
</tr>
<tr>
<td>Dr. Alan Brody</td>
<td>UNICEF Swaziland, Representative</td>
</tr>
<tr>
<td>Mr. Obed Hlongwane</td>
<td>Chief Executive Officer NAMBoard</td>
</tr>
<tr>
<td>H.E. Lewis Lucke</td>
<td>USA Ambassador to the Kingdom of Swaziland</td>
</tr>
<tr>
<td>Dr. Ben Nsibandze</td>
<td>Chairman, National Disaster Task Force</td>
</tr>
<tr>
<td>Mr. Jameson Ginindza</td>
<td>Director, National Disaster Task Force</td>
</tr>
<tr>
<td>H.E. Arno Schäfer</td>
<td>Chargé d’Affaires, European Commission in Swaziland</td>
</tr>
<tr>
<td>Mr. Elliot Mavimbela</td>
<td>Development Manager, NAMBoard</td>
</tr>
<tr>
<td>Mr. Lovemore G. Magagula</td>
<td>Senior Economist, Ministry of Planning and Economic Development</td>
</tr>
<tr>
<td>Mr. Sifiso S. Nyoni</td>
<td>Chief Executive Officer, National Maize Corporation (Pty) Ltd.</td>
</tr>
<tr>
<td>Mr. Christopher Nkwanyana</td>
<td>Under Secretary, Ministry of Agriculture and Cooperatives</td>
</tr>
<tr>
<td>Ms. Pelucy Ntambirweki</td>
<td>Programme Coordinator, UNICEF Swaziland</td>
</tr>
<tr>
<td>Mr. Sipho Nxumalo</td>
<td>Under Secretary, Ministry of Agriculture and Co</td>
</tr>
<tr>
<td>Mr. Vusi Simelane</td>
<td>Economist, Ministry of Planning and Economic Development</td>
</tr>
<tr>
<td>Mr. Bhizeni Tsabedze</td>
<td>Chairman, Swazi National Maize Growers’ Association</td>
</tr>
<tr>
<td>The Manager</td>
<td>NMC Silos in Ngwavuma</td>
</tr>
<tr>
<td>Mr. Daniel Maduna</td>
<td>World Vision International</td>
</tr>
<tr>
<td>Mr. Nhlanhla Motsa</td>
<td>Lutheran Development Services</td>
</tr>
<tr>
<td>Mr. Emanuel Ndlamandla</td>
<td>Coordination Assembly of Non-Governmental Organisations</td>
</tr>
<tr>
<td>Mr. Danger Nhlabatsi</td>
<td>Africa Cooperative Action Trust</td>
</tr>
<tr>
<td>Mr. Theunis Uys</td>
<td>CEO, Ngwane Mills Ltd.</td>
</tr>
<tr>
<td>Mr. Willie Long</td>
<td>Managing Director, Farm Chemicals Swaziland</td>
</tr>
<tr>
<td>Mr. Mavimbela</td>
<td>Farmer in Kaphunga</td>
</tr>
<tr>
<td>Mr. Dlamini</td>
<td>Farmer in Kaphunga</td>
</tr>
<tr>
<td>Ms. Mduli</td>
<td>Beneficiary in WFP interventions in Kaphunga</td>
</tr>
<tr>
<td>5 Beneficiaries</td>
<td>In WFP interventions in Khaphunga</td>
</tr>
<tr>
<td>4 Food traders</td>
<td>Mbabane food market</td>
</tr>
<tr>
<td>5 Food traders</td>
<td>Matsapha food market</td>
</tr>
<tr>
<td>6 Beneficiaries</td>
<td>In WFP interventions in Ngwempisi district</td>
</tr>
<tr>
<td>4 Farmers</td>
<td>Kholwane, Farmers’ Association</td>
</tr>
<tr>
<td>Ms. Makhosazana</td>
<td>Beneficiary, child-headed household, Kholwane</td>
</tr>
<tr>
<td>4 Farm Input traders</td>
<td>Sipophanen and Kaphunga</td>
</tr>
<tr>
<td>11 Beneficiaries</td>
<td>In WFP interventions in Mlindazwe</td>
</tr>
<tr>
<td>WFP Field Staff</td>
<td>WFP Field Offices in Sipophanen and Lavumisa</td>
</tr>
</tbody>
</table>
ANNEX II

Establishing Food Market Intelligence Systems for Food Situation Analyses in Country Offices

In the context of food aid interventions, the purpose of assessing food markets is to determine the current significance and magnitude of influence that food-marketing systems have on the prevailing food security situation. To assess food markets, Country Offices need to have information on the key aspects of domestic food markets for which a market intelligence system is required. The key aspects include: supply, demand, prices and the market system/functioning.

The suitable approach to gather such data should therefore involve use of food market surveys and monitoring systems (which WFP uses to generate qualitative and quantitative primary data) and the use of secondary data from sources like market research reports, regulatory and technical agencies (Ministry of Agriculture, FAO, World Bank, etc…), industry periodicals, statistical departments, commodity trader organisations and companies.

The following table entails a wide range of aspects for data collection that one would require in a comprehensive market analysis. However, given the varying levels of human and financial resources in WFP’s field operations, Country Offices may opt for prioritisation and limit their data collection to those aspects that relate most to their urgent needs. The table also provides guidance to Country Offices that intend to improve or establish comprehensive on-going market intelligence systems.

<table>
<thead>
<tr>
<th>Food Production and Supply</th>
<th>Demand</th>
<th>Market Prices</th>
<th>Market Systems and Linkage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic food production</td>
<td>National consumption estimates</td>
<td>Price setting mechanisms (free market or controlled)</td>
<td>market structure (small scale individual traders, farmers' associations / cooperatives or big companies)</td>
</tr>
<tr>
<td>Areas of production</td>
<td>Per capita consumption (by crop)</td>
<td>Farm-gate prices (nominal)</td>
<td>market concentration (monopoly/monopsony, oligopoly, or free)</td>
</tr>
<tr>
<td>Production cycles / Annual seasons</td>
<td>Local tastes/food preferences</td>
<td>Wholesale prices (nominal)</td>
<td>Retails banking interest rates</td>
</tr>
<tr>
<td>Crop yields/hectare</td>
<td>Annual deficit/surplus levels (by crop)</td>
<td>Retail prices (nominal)</td>
<td>Food processing industries</td>
</tr>
<tr>
<td>Production structure (large, medium, small scale farmers)</td>
<td>Annual commercial food imports and exports</td>
<td>Import parity prices (for internationally tradables)</td>
<td>Market connectivity and accessibility (integration)</td>
</tr>
<tr>
<td>Average post harvest losses</td>
<td></td>
<td>Price variations among markets</td>
<td>Transportation costs (by commodity/MT)</td>
</tr>
<tr>
<td>Average on-farm consumption</td>
<td>Demand</td>
<td>Monthly consumer price indices</td>
<td>Average storage capacities with traders</td>
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<tr>
<td>Level of national stock reserves (if available)</td>
<td></td>
<td></td>
<td>Limiting regulations (trade barriers)</td>
</tr>
<tr>
<td>Average on-farm storage capacities</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Farm input prices (seeds, fertilisers, implements, labour)</td>
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</table>
The food situation analysis should aim to understand the extent that local markets can meet the demand for food now and in the foreseeable future. What are the constraints, if any, that inhibit market functioning? What contingencies could enhance or inhibit the capacity of markets to meet the demand? If markets are functioning properly, they will respond to effective demand - i.e. the purchasing power to buy food - and increase supply as prices rise. However, as prices rise, this may reduce access to food for vulnerable households. In practice, markets may not function properly if there are trade barriers, significant damage to infrastructure or high insecurity, or if domestic markets are not well integrated and competitive. Any deficiencies in market systems/functioning would contribute to increased food gap between what is needed and what the market is able to supply.
ANNEX III
Terms of Reference for the Analytical Review of Food Aid and Food Markets in Swaziland and Lesotho

1. Introduction
WFP Country Offices in Lesotho and Swaziland have requested analytical review of the food market and national food security strategy of the two countries.¹⁰ This is intended to assess the impact of WFP food assistance on food markets and to provide guidance to programming to maximise the benefits from food assistance and minimize potential negative impacts to traders and producers.

2. Background/ Context
The use of food aid in non-emergency operations has often generated debates that have questioned its appropriateness on grounds of its potential negative impact on domestic food production and food markets. The broad thrust of the argument is that large amounts of food brought into a country raises aggregate food supply on domestic markets, depresses domestic prices and thereby creates disincentive to trade in and to produce food. It is believed that the distortions in prices make it unprofitable for traders to move food from surplus to deficit areas, hold food stocks and to take risks that would ensure supply in locations and periods of potential scarcity. It is also argued that this can lead to long-term displacement of domestic food production and changes in consumer tastes.

The above arguments are based on a number of underlying assumptions (some below) that would expect to vary from country to country and are crucial to the review.

- Total amount of flow of food aid into the country is significantly large enough to raise aggregate supply and thereby depress local prices.
- The country has combined production and imports capacities high enough to meet domestic requirement; import of food aid beyond a certain threshold will disrupt the supply-demand balance.
- Markets for food are well developed and function well, and therefore capable of moving food from surplus to deficit regions and address food access concerns.
- Household recipients of food assistance ordinarily purchase a large proportion of their food requirement; food aid would therefore result in reduction in market demand and thereby affect prices.

On the other hand, food aid is regarded useful for meeting the needs of households that would not normally afford food through the markets. It is argued, the presence of food aid can

¹⁰The initial requests were made to the Economic Analysis and Development Policy Unit (PDPE) in 2004. This now involves the Strengthening Emergency Needs Assessment Capacity (SENAC) unit in ODAN that is carrying out related work.
help to stabilize or moderate prices and thereby ensure access to poor households. A review of recent studies (34) on disincentives, distortions, displacement and dependency effects of food aid prepared by Awudu Abdulai (2005) for WFP failed to find strong empirical evidence in support of the hypothesis that food aid significantly displaces domestically produced food on recipient country markets. Particularly in sub-Saharan Africa where balance of payments and working capital constraints are binding at macro and household levels, it is plausible that food aid’s contemporaneous displacement of food purchases might foster productive investments that generate significant dynamic gains from food aid.

3. Purpose/ objective of the review
The purpose of the review is to assess the impact of WFP’s food aid on domestic food markets and national food security in general. The findings of the reviews are expected to:

- Provide a useful background for formulating strategy for WFP’s food aid interventions in Swaziland and Lesotho.
- Clarify concerns/ perceptions of negative impact of WFP’s food assistance on production and markets in the two countries.
  - Identify measures/ approaches to food assistance that minimise any potential negative impact of food aid and/or promote effectiveness of local food markets - including identifying the potential for WFP local purchases.
  - Enable Country Offices to establish/ strengthen their systems of market intelligence and food situation analyses, to guide management decisions on appropriate food aid interventions.

4. Intended users of findings
Primary users will be WFP COs in Swaziland and Lesotho and their partners (NGOs and Governments); ODJ; PDPE and ODAN. The findings also expected to provide useful information/lessons for other units in WFP, COs and partners.

5. Key issues for consideration in the analysis
For the analytical review to provide meaningful results, there will be a need to combine issues pertinent to food ‘availability’ at the macro level with those relating to food ‘access’ at the micro (household) level. The following are some of the issues suggested for the analytical review:

- National food security policies and strategies, including policies on food aid for emergency and development programmes
- National food balance sheet and its constituent components (production, stocks, consumption, and net exports or imports)
- Trade and agricultural policies, the links with and impact on national food security
- Food market systems, structures pricing systems and price trends (consumer, wholesale and farm-gate prices) and their effect on household consumption
• Market infrastructure and storage facilities, including capacity and utilisation
• Food quality standards and implications for marketing
• Main food crops, levels, regional and seasonal of production and implications for local purchases for food aid
• Forward and backward linkages and the role of private sector in input supply, transport, storage, cleaning, drying and processing facilities and capacity utilization; and market social capital (market information, trade networks between surplus and deficit areas, intra-regional trade)
• Nature and magnitudes of programmes implemented by WFP in the country
• Poverty levels – household incomes, consumption, etc.
• Historical profile of food aid

6. Methodology/ Approach

The review will broadly include (but not limited to) the following:

• Desk review of available literature on country situations with particular focus of food aid assistance
• Interviews/ meetings (semi-structured interviews) with key informants and stakeholders (including WFP; Government; farmers/producers; traders; food processors; consumer households; and recipients of food assistance)
• Visits to key food markets (in surplus & deficit areas) – to assess market conditions, gather prices and interview traders (wholesalers, retailers) and consumers
• Analysis and synthesis of findings from the reviews, interviews and visits

7. Expected outputs

The following will be the expected outputs form the review:

• Reports of the main findings with clear recommendations. There will be one report for each country. Draft reports will be circulated to the Country Offices, Regional Bureau (ODJ), PDPE and ODAN (SENAC) for review/ comments before being finalised.
• Presentation of preliminary findings to WFP and stakeholders in each country after the completion of the fieldwork.
• The final report will be serialised in PDP’s Issue Papers as part of the “Pass-It-On” knowledgebase.
• Information/ findings from the review will also be used as input to the SENAC project theme on ‘impact of food aid on markets’ and for updating the Emergency Food Security Assessment Handbook.

8. Team composition for the review
The analytical review will be jointly undertaken by the PDPE, ODAN (SENAC) and Country Offices with technical support from the Food Security Economist (PDPE) and the Regional Food Market Specialist (ODJ/ODAN).

- The approach to the fieldwork can either be phased (one country followed by another) or simultaneous (two teams). The former has the advantage of the same team working together and thereby uniformity of approach. On the other hand, the latter will expect the process to proceed faster.

9. Time-line for the reviews

The proposed timeframe suggested for the analytical review is as follows:

- Preparation: 1 week of preparation/ literature review & development of tools
- Country/field visits (data collection and preliminary report):
  - Swaziland: 1½ - 2 weeks
  - Lesotho: 1½ - 2 weeks
- Analysis & report writing: 2 weeks
- Comments from CO, ODJ, PDPE & ODAN/SENAC: 2 weeks
- Final report: 1 week