



**GLOBAL
INTERDEPENDENCE
CENTER**
International Dialogue Since 1976



Bank Of Zambia

**GIC / BANK OF ZAMBIA 2009 FOOD AND WATER CONFERENCE SERIES
BASIC CHALLENGES TO INTERNATIONAL STABILITY
PART III
“MONETARY POLICY, FINANCIAL MARKETS, AND FOOD AND WATER SECURITY”**

Zambezi Sun, Livingstone, Zambia, 26TH – 28TH MAY 2009

SUMMARY OF DELIBERATIONS

Distinguished Ladies and Gentlemen, the broad objective of this workshop was to identify and discuss practical ways in which the key players in the financial sector can support the attainment of food and water security.

Distinguished Ladies and Gentlemen, after such a lively discussion it is indeed difficult to summarise all of the important points made. I will frame the summary in the context of four key questions that we articulated as important in defining our objective:

1. First, what are the global risks and challenges presented by food and water insecurity, and how can Zambia (and other developing countries) minimize the risks and take advantage of available/emerging opportunities?
2. Second, how can central banks best deal with exogenous shocks associated with food and water security, and support the financial sector in financing the food and water sectors?
3. Third, what is the impact of the global financial crisis on bank capital and the risk appetite of commercial banks, and do banks have the ability and appetite to participate in the Governments planned long-term investment projects?
4. Fourth, what are the key constraints to accessing credit and what are the policy constraints (monetary and fiscal) constraining investment in the food and water / energy sectors?

We have heard the important role that food and water development plays in economic growth and poverty reduction. The challenges of food and water development have been well articulated by our distinguished presenters and participants. The following are some of the points that stood out in our deliberations today.

- From the macroeconomic perspective, it was clearly recognized that addressing the challenges of food and water security require stable and strong macroeconomic policies that focus on maintaining low inflation, and expanding investment in enabling infrastructure, such as, roads, storage facilities, dams and irrigation systems e.t.c. It was stressed that concerted efforts needed to be made to reduce the high cost of doing business in Zambia. In addition, there was a need for policy consistency for the private sector to make long term investment commitments.
- Central banks clearly had an important role to play in the food and water sector and needed to address challenges in defining and communicating appropriate inflation targets and objectives. Some ways in which improvements could be made in communicating inflation trends were highlighted and will have to be actively reviewed by the central bank.
- Equally important, it was recognized that the regulatory framework, with respect to competition in the food and water sectors was important in addressing anti-competitive practices in the sectors that led to unduly elevated prices.
- It was also noted that in a global economic environment, food self sufficiency would not necessarily insulate countries from adverse movements in world food prices and exchange rate fluctuations.

- It was recognized that commercial banks and development finance institutions clearly had an important role to play in meeting the demand for finance in the food and water sectors. However, for finance to flow it was important that borrowers were credit worthy and that they had bankable projects. Lessons from the sub-prime crisis in the United States of America, for example, highlighted the need to return to fundamental principles of banking, with less emphasis being placed on simply raising interest rates. In other words, there is need to pay attention to issues of character, capacity to pay, and collateral. In this regard, innovative mechanisms to anchor lending that decisions included employing enabling mechanisms, such as, those employed by the Grameen model, that were relevant to our social setting.
- It was also recognized that different borrowers presented different risks. It was noted for example, that commercial farmers, were more readily accessible to commercial credit than small scale and emergent farmers. The commercial banking sector had in fact expanded credit to the agriculture sector significantly over the past few years.
- However, clearly a number of significant challenges remained. This included the need to strengthen partnerships between banks and the Government; banks and multilateral financial institutions in order to bridge the mismatch between long term financing needs and short term funding base (deposits) of commercial banks. The ADB demonstrated that there are funds being made available to support these sectors. However, it was noted that external financing had been affected adversely by the global financial crisis.
- Further development of the debt and capital markets was an important avenue through which long term capital funds could be secured to support investments in the food and water sector and infrastructure development. In addition, the need to improve financial literacy and the project management skills within commercial banks and other financial institutions was also critical to the successful management of credit to the food and water sectors.
- Furthermore, in the water sector, there was need to strike a balance between the need for cost recovery tariffs that would attract private sector investment and a recognition of the impaired ability to pay of many poor households in both the urban and rural communities. In the energy sector there was need to invest in both generation and distribution to support food and water sectors.
- With regards to the constraints faced by the private sector, another key problem in the agriculture sector was low productivity, particularly amongst the small scale farmers.
- Policy intervention has to be aligned to the objectives of allowing increased private sector participation in agricultural production. This is so as to avoid observed displacement of the private sector by the Government.
- Finally, the need for working together and addressing governance issues cannot be hardly over-emphasised.