Zambia needs to re-look at the current role of the Food Reserve Agency (FRA) if maize marketing is to work for Zambia - CTPD

The Centre for Trade policy and Development (CTPD) notes from recent media reports that the Food Reserve Agency (FRA) has made commitments to purchase over 900,000 metric tonnes of Maize (Post Newspaper, October 2, 2014). Government through both the Minister of Agriculture and Livestock, Honourable Wilbur Simuusa, and Minister of Finance, Honourable Alexander Chikwanda, has acknowledged that there are funding gaps to fully finance the purchase of maize this farming season and government may need to borrow or find alternative financing to close this gap.

Even with this financing gap, FRA has purchased over and above its storage capacity of 872,000 metric tonnes. At the beginning of the year, the Minister of Agriculture did indicate to the general public that FRA would only buy 500,000 metric tonnes of maize and that private sector would be encouraged to buy the surplus. For this reason, the Minister of Agriculture indicated that an open border policy would be upheld to encourage private sector to buy and export maize into regional markets, a position that Government must support if Zambia is to see growth and expansion in agricultural exports. Added to this, is the need for Zambia to begin to adequately stimulate sustained agricultural led growth which is critical in reducing the current high levels of poverty. The Minister of Agriculture’s earlier indication of FRA buying only 500,000 metric tonnes of Maize pointed to the fact that private sector is an important player in the industry and therefore the country at this stage needs to address the current challenges to effective private sector participation in Maize marketing.

The Question is: what has necessitated FRA to buy beyond its storage capacity? Has private sector in Zambia failed to meaningfully drive the maize marketing process? What is causing inefficiencies in the industry? Is FRA competing for the same markets regionally as local private sector players? What is the impact of this on the farmers particularly the small scale farmers? These questions are important questions that Government policy and regulation in Maize marketing should answer. Given the expanded role of FRA based on the 2005 amendment of the FRA ACT to include crop marketing and maize price setting in addition to its role in buying strategic reserves, Zambia needs to critically assess whether this current role of FRA is working and whether or not Zambia stands to lose out from the current mode of Maize marketing in relation to the current role of the food reserve agency.
The Centre for Trade Policy and Development (CTPD) has conducted a study on Maize marketing in Zambia. One of the three specific objectives of this study was to evaluate government regulation in the maize sector such as the role of the FRA. Key findings from this report strongly suggest that Zambia needs to employ an alternative policy approach to maize marketing. More specifically, the report findings indicate that institutional reforms of the food reserve agency are a must for Zambia. Why Does CTPD hold this view? We take you through a deeper look into the current role of FRA and its impact on maize marketing in Zambia below.

The impact of the Food Reserve Agency in maize marketing

The Food Reserve Agency was established by government in 1996 and its original mandate was to establish and administer a national food reserve. In 2005, the FRA Act was amended and in addition to its original mandate, crop marketing and maize price setting were also included. Since then its presence in maize marketing in the country has increased greatly. Between 2010 and 2013, a period that coincided with a series of record maize harvests, the FRA alone purchased above 80 percent of the surplus maize from smallholder farmers at an increasingly high cost to the Zambian treasury (see figure 1 below). Indeed, between 2010 and 2012 Government was spending over 50 percent of the agriculture budget on FRA alone (see figure 2). Furthermore, many of the purchases have been beyond what was budgeted for, and could only be financed through borrowing.

The expanded presence of the FRA in Zambia’s maize market also comes at a significant opportunity cost to other types of spending within the agricultural sector.

**Figure 1: Maize sales and FRA purchases in Zambia - 2003/04 to 2012/13 marketing years**

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Source: CSO/MAL CFS, PHS; Supplemental Survey to the CSO/MACO/FSRP Post-Harvest Survey (2004 and 2008)
Figure 2: Total agricultural sector budget and FRA expenditure, 2003 - 2013

Effects of the FRA on maize marketing between 2010 and 2012 – what has not worked well?

There are several effects of the expanded role of the Food Reserve Agency on maize trading during the period under review resulting into lessened amount of maize exported.

First, the private sector was and is still being crowded out. Between 2010 and 2012, Zambia recorded a total maize production of 8.6 million metric tonnes of which 4.6 million metric tonnes was surplus. The FRA’s targeted purchases were 1.5 million metric (500,000 metric tonnes each year). However, FRA alone purchased about 3.7 million metric tonnes, or 80 percent of the surplus maize. This behaviour by the FRA to routinely buy maize beyond its targets discouraged many private traders to participate in the maize market. This is the same situation we are seeing even in the 2014 crop marketing season. The buy high and sell low strategy of the FRA has crowded out the private sector in the past and continues to do so even now. Added to this is the fact that access to maize markets for farmers whose maize cannot be absorbed by FRA is limited, since not all farmers are able to sell their maize to FRA.

Second, there has been reduced competitiveness in the sector. Many private actors exited the maize market because of the major role of the FRA which bought the bulk of the maize on the market between 2010 and 2012. This exit of both formal and informal players in the maize market reduced competition in the sector. As this happened, millers started depending on the maize held by the FRA for their milling requirements. Storage capacity of the FRA of about 870,000 tonnes was not enough to handle all the maize that was purchased by the Agency. Estimated storage grain losses in the FRA
sheds was about 32 percent (MAL, 2013). This is a significant amount of post-harvest grain loss. According to Sitko and Kuteya (2013) the estimated grain losses incurred by private sector ranges between 3 and 5 percent! This means that the country is currently suffering huge amounts of maize grain losses post-harvest due to current challenges within the FRA to procure, store and offload to readily available markets. Losses of about 32% are huge and significantly reduce revenues that should be realized from Maize trade at country level. It must be noted that FRA does not just incur costs on the purchase of Maize, it incurs costs on storage, fumigation and transportation of the maize from the source to holding depots and then on wards to the main depots and the final selling urban depots. These are costs that the Zambian Government is currently bearing through FRA operations.

Third, there has been reduced regional comparative advantage. From 2010 through 2012, the uniform maize prices offered to smallholder farmers by the FRA have been above prices in the regional markets. Within this period, a tonne was costing about US$260. Taking into consideration other marketing costs like handling, storage, fumigation, financing costs and storage losses, the cost of FRA maize per metric tonne was above US$400 (Kuteya and Jayne 2012). Due to these high costs incurred, the FRA exports were unprofitable. In 2010 the FRA incurred a loss of US$91-177 for each metric tonne exported. But in order to create storage space for the following harvest, the Agency exported maize even at a financial loss. The question here is whose interests are being served when such decisions are being made? what should be understood here is that this action by FRA limits export marketing opportunities for private traders which in turn discourages the private sector’s involvement in maize exports (Nkonde, et al. 2011). So current arguments that support FRA interventions due to lack of private sector capacity may not necessarily hold true; CTPD is of the view that government needs to relook at the role of FRA in this regard and ensure that institutional reforms are effected that will provide room for effective private sector participation in maize marketing. As it is, Private sector in Zambia may not be able to compete for the same regional markets with FRA hence the current perception of lack of capacity with private sector.

And fourth, it disrupted the informal maize market. After FRA bought the bulk of the maize, it became difficult for the players in the informal market to access FRA maize because this is sold by tender and in large quantities which small grain traders could not afford. Because of this, accessing maize on the open market between 2010 and 2012 became difficult for the informal sector traders and when accessed it was expensive. Due to non-availability and higher prices of maize in Zambia, stakeholder interviews revealed that it became difficult for the informal sector to export maize.

What therefore should government do?

The perceived lack of a comprehensive agricultural marketing policy has introduced uncertainty in the maize markets. While Government has liberalized the agricultural sector, it still retains discretionary power to intervene in the market. This should be curtailed, and the FRA returned to its original food security purpose.

Efforts to improve the policy and market landscape have led to the development of three key pieces of legislation although none of which has been implemented so far. These include the Agricultural Credit Act 2010, which provides *inter alia* the legal framework for the implementation of a warehouse receipt system. This would pave way for certified storage of agricultural commodities
and inject operating capital into agricultural value chains to the advantage of all stakeholders. Another piece of legislation drafted is the *Commodity Exchanges Bill* that should allow for Government oversight and regulation of commodity exchanges and allow for the robust enforcement of trading rules, principles and practices.

Zambia will not see the potential benefit of Maize trade to the economy if the marketing process remains politicized. Increased state intervention in the maize marketing process crowds out the private sector and eventually stifles growth. *CTPD* continues to argue that the use of regulatory mechanisms such as export bans to artificially lower State intervention in the maize market must be minimal and clarity on whether FRA should be buying maize above its target, particularly when research evidence shows FRA has incurred financial losses when exporting excess maize due to several other costs incurred by the agency.

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To read more around alternative policy thinking in the regulation of Zambia’s maize market; look out for the launch of the scoping study report conducted by CTPD on Maize Markets to be launched in soon. For further information log on to our website on [www.ctpd.org.zm](http://www.ctpd.org.zm) or like us on facebook by searching for Centre for Trade Policy and Development; you can also follow us on twitter using our twitter handle @ctpd/Zambia