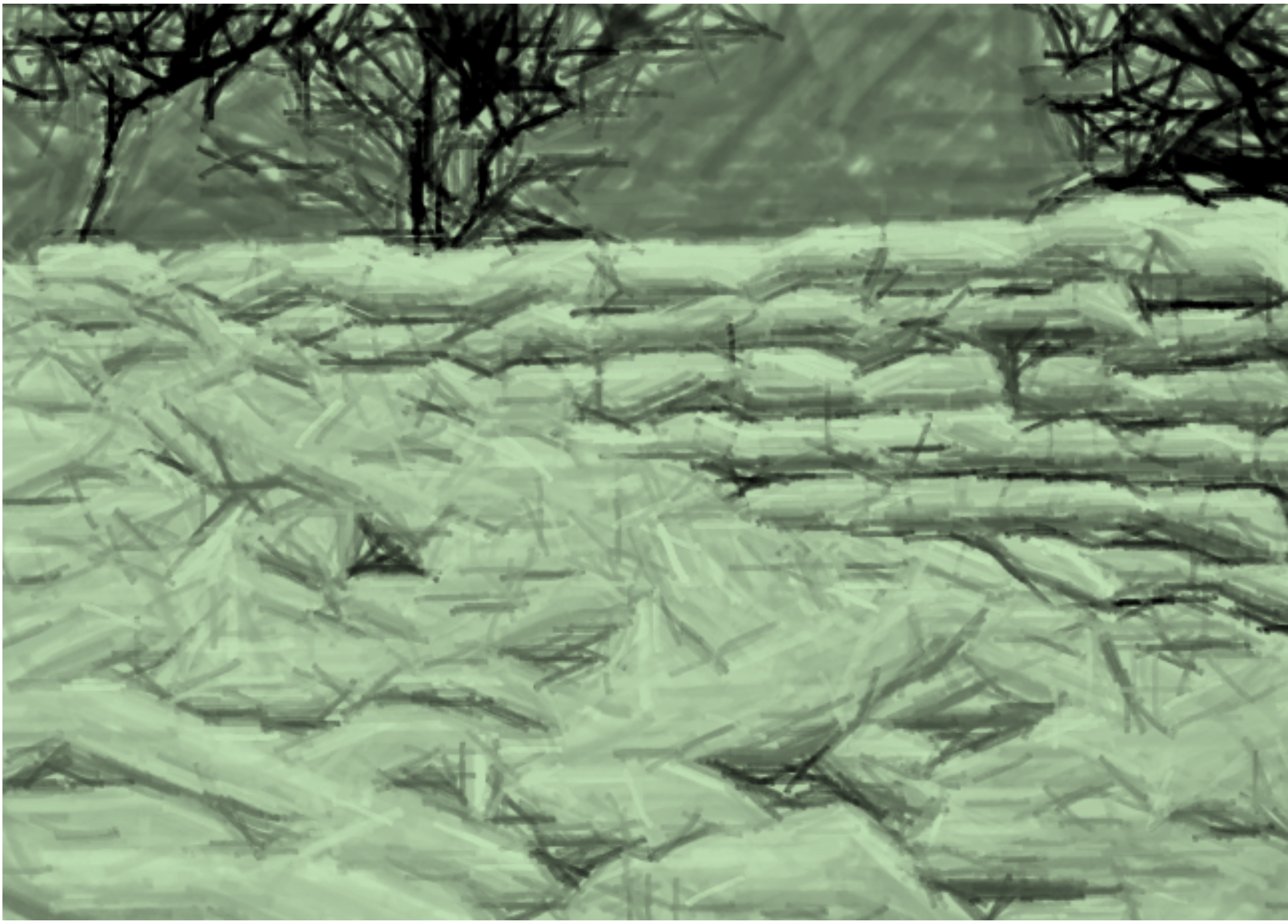
research report

Review of the Food Reserve Agency Act

Will commercialising the FRA address its inefficiencies?



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Contents

Acronyms

ADMARC	Agricultural Development and Marketing Corporation
AFC	Agricultural Finance Corporation
CRF	Consolidated Revenue Fund
CSO	Central Statistical Office
FRA	Food Reserve Agency
GMB	Grain Marketing Board
IAPRI	Indaba Agricultural Policy Research Institute
IMF	International Monetary Fund
NAMBOARD	National Agricultural Marketing Board
NCPB	National Cereal and Produce Board
NFRA	National Food Reserve Agency
NUSFAZ	National Union of Small Scale Farmers of Zambia
PPP	Public Private Partnership
SGR	Strategic Grain Reserve
SFRTF	Strategic Food Reserve Trust Fund
ZNFU	Zambia National Farmers Union

Executive Summary

Over the years, the operations of the Food Reserve Agency (FRA) have been criticised due to the huge fiscal burden that the institution has placed on the Government. This has led to repeated calls to reform the agency from Zambian stakeholders as well as international voices including the International Monetary Fund (IMF) which raised the issue during Zambia's recent discussions over a loan package.

Against this background, in September 2017 the Republican President, H.E. Edgar Lungu, mentioned in his opening parliamentary speech that there would be a review of the FRA legislation. As such, in line with the President's remarks, the Government of Zambia through the Ministry of Agriculture (MoA) soon announced that it would be reviewing the FRA Act. The Ministry of Agriculture indicated that this review had arisen as a result of concerns by various stakeholders on the operations of the FRA. These concerns included: the over-dependence of the FRA on Government funding; the high operating cost of the FRA programme; and the unsustainability of the FRA subsidies.

The Ministry of Agriculture and the FRA proposed seven amendments to the Food Reserve Act Chapter 225 of the Laws of Zambia. Institutions such as IAPRI provided an analysis on the potential effects of each of the amendments.[1] Among the seven, however, the proposal to expand the role of the FRA into a commercial entity elicited major reservations among a number of players.

The main purpose of this paper, therefore, is to show how that specific proposal would severely undermine the development of Zambia's agricultural sector should the government proceed to implement the proposed amendment. In particular, an expansion of the role of the FRA would significantly weaken the private sector in Zambia, which is contradictory to the Government's commitment to reduce its own role in agriculture marketing.

The MoA argued that the FRA could become commercially viable by raising revenue through exports. However, the assumptions underpinning this argument were flawed and contradictory. The FRA cannot simultaneously make a profit through exports and stabilise prices. Nor can it make a profit and support farmers, which it has traditionally done by offering them an above market-price.

This paper uses evidence from marketing boards in Kenya, Malawi and Zimbabwe, to show how a commercial role is incompatible with the social function of providing farmers with a social safety net.

The Kenyan example shows how the social function of maintaining strategic grains and the commercial function of grain marketing, specifically, the participation in grain markets for profit, are contradictory and create inefficiencies when combined into one institution. The commercialisation of the National Cereal and Produce Board (NCPB) increased opportunities for rent seeking in Kenya, meaning that only a small number of politically connected farmers benefit from NCPB activities in the grain market.

Similarly, the Zimbabwe and Malawi examples give evidence that commercialisation does not necessarily mean financial independence; both the Grain Marketing Board (GMB) and Agricultural Development and Marketing Corporation (ADMARC) continue to drain national resources after taking on market reforms to commercialise. In all cases, it is clear that when the government parastatal intervenes in markets beyond the social role of maintaining Strategic Grain Reserves (SGRs), it can cause disruptions and unpredictability in maize markets, which adversely affect food security and agriculture sector growth.

Moreover, we argue that the MoA's proposed amendments would have in effect recreated

[1] IAPRI. (2017). *A Review of the Proposal of the Food Reserve Act Chapter 225 of the Laws of Zambia* [Ebook] Retrieved from http://www.iapri.org.zm/images/PolicyBriefs/FRA_Act_proposed_ammendments_review.pdf

the National Agricultural Marketing Board (NAMBOARD), which was previously abolished because it proved highly ineffectual, and badly damaged agriculture-led development in Zambia.

NAMBOARD extended its duties beyond providing a guaranteed market for farmers, intervening extensively in the market on the basis that this would make it financially sustainable. However, it encountered numerous challenges in the execution of its duties and the increasing interference of the Government constrained the management of the ability to work efficiently. NAMBOARD was to prove commercially unviable hence its abolition. The experience of NAMBOARD shows that a move to commercialise the FRA, would similarly undermine agriculture-led growth in Zambia.

Based on the evidence from across the region and from Zambia's own history, CUTS therefore, encourages the Government to abandon its plans to commercialise the FRA and instead focus on reform efforts that restrict the FRA's role to manage a national food reserve, which is the best solution for the financial challenges it faces, and gives a larger role to the private sector. This view is shared among many of the key agricultural stakeholders in Zambia, including the Zambia National Farmers Union (ZNFU), the Grain Traders Association of Zambia (GTAZ), and the National Union of Small Scale Farmers of Zambia (NUSFAZ). These organisations and others signed a joint statement with CUTS setting out their opposition to the MOA's proposals (see Annex).

Other than being a strain on the Zambian treasury, the FRA has faced other issues including inadequate targeting, market price distortions, limited benefits to consumers and policy inconsistency. These issues have, however, not been raised as areas of concern in the proposed review of the FRA Act. In order for the current review of the Act to be sufficiently comprehensive, based on this and the literature reviewed, the policy brief makes the following recommendations:

1. The FRA should stick to its core mandate as a national strategic reserve and not expand its role to that of a commercial player in the grain market. Based on evidence a food reserve agency cannot play a role of maintaining the strategic grain reserve and ensuring food security for emergencies while simultaneously playing a commercial role.

2. The FRA in its review is seeking to address the operation cost challenges it has faced, however, as has been shown in this paper, the problems of the agency are deeper than just those of a fiscal nature. The FRA has lacked proper targeting, been inconsistent with policy, had limited benefits to consumers and has caused market distortions. As the FRA Act is being reviewed it will also be important that amendments be made to also address these issues.

1. Background

The FRA of Zambia was established by an Act of Parliament in 1995 with the sole mandate of stabilising food prices through a strategic grain reserve. The FRA was mandated to purchase, store and release stocks in the market in times of food stresses as well as other forms of disasters that create volatility in prices. In 2005, the Act was reviewed with an important additional role in crop marketing giving the FRA the freedom to play the role of trader as well as set prices of major commodities in the country.

Over the years, the operations of the FRA have been criticised due to the huge fiscal burden the FRA places on the Government. This has led to repeated calls to reform the agency from Zambian stakeholders and from international voices including the International Monetary Fund which raised the issue during Zambia's recent discussions with them over securing a loan.

Against this background, in September 2017 the Republican President, H.E. Edgar Lungu, mentioned in his opening parliamentary speech that there would be a review of the FRA legislation. As such, the FRA management began working with the Ministry of Agriculture to start the process of reviewing the organisation's act and operational strategies.

In line with the President's remarks, the Government of Zambia through the Ministry of Agriculture announced that it would be reviewing the FRA Act. Indeed, the Ministry of Agriculture indicated that this review had arisen as a result of concerns by various stakeholders on the operations of the FRA. These concerns included: the over-dependence of the FRA on Government funding; the high operating cost of the FRA programme; and the unsustainability of the FRA subsidies.

While efforts to make the FRA more efficient in its operations must be applauded, the Government in its review failed to take into account some of the other issues that have plagued the FRA over the past few years. According to various literature, other than being a strain on Zambian treasury, the FRA has also lacked proper targeting, caused market price distortions and been inconsistent with its policy. These issues, however were not been raised as areas of concern in the proposed review of the FRA Act. The proposed amendments therefore, without consideration of these other key issues, were not comprehensive enough.

This policy brief therefore seeks to achieve two objectives. Firstly, it will look at the proposals that the FRA put forward. The Ministry of Agriculture and the FRA proposed seven amendments to the Food Reserve Act. Institutions such as IAPRI provided an analysis on the potential effects of each of the amendments,[2] however, rather than provide a broad analysis of all the proposed amendments, this policy brief will seek to do an in-depth analysis of one of the specific proposed amendments that could potentially have a particularly significant negative effect on Zambia's agricultural sector as a whole.

In the 'Brief on the proposed amendments to the FRA Act Cap 225 of the Laws of Zambia', the Ministry of Agriculture's third proposed amendment read as follows:

> 'The FRA [has] proposed amendments to Section 4 of the Act to allow the Agency to engage in business ventures for profit under the Public Private Partnership (PPP) model and allow the Agency to buy trading stock of designated commodities for local and export markets. The amendment of the Section

[2] IAPRI. (2017). *A Review of the Proposal of the Food Reserve Act Chapter 225 of the Laws of Zambia* [Ebook] Retrieved from http://www.iapri.org.zm/images/PolicyBriefs/FRA_Act_proposed_ammendments_review.pdf

will allow the Agency *(sic)* venture into value addition under the PPP model. This expected result in sustainable revenue generation for the Agency.'

The FRA has proposed to commercialise the agency as a way of addressing the financial strain that the FRA places on the Government. However, as set out in this policy brief, all the regional evidence, and Zambia's own failed experiment with NAMBOARD, demonstrates that attempts to commercialise SGRs have proved highly unsuccessful. The fundamental point is that it is not possible to combine a social function of protecting farmers and make a profit. We, therefore, encourage the Government to abandon its plans to commercialise the FRA and instead focus on reform efforts that restrict the FRA's role to manage a national food reserve, which is the best solution for the financial challenges it faces, and give a larger role to the private sector.

Indeed, it is the view of the key agricultural stakeholders that the Government should abandon the proposal to commericalise the FRA. The Zambia National Farmers Union (ZNFU), the Grain Traders Association of Zambia (GTZA), and the National Union of Small Scale Farmers of Zambia (NUSFAZ) are all opposed to the proposed amendment (see Annex 1).[3]

Following this analysis, the brief will then provide a synthesis of a number of studies that have highlighted other key areas of concern with the FRA. This analysis is important in that it identifies other issues that, in the event of a proposal to reform the FRA, should also be discussed as well. As the FRA Act is being reviewed it will also be important that amendments be made to also address these issues.

[3] CUTS Lusaka (2018, February 9). Zambian Agricultural Sector and Diversification under Threat from Proposed Amendments to the FRA Act. *Daily Nation*, pp. 4

2. To Commercialise or Not to Commercialise?

As indicated earlier, in the 'Brief on the proposed amendments to the FRA Act Cap 225 of the Laws of Zambia', the Ministry of Agriculture's third proposed amendment read as follows:

> 'The FRA proposed amendments to Section 4 of the Act to allow the Agency to engage in business ventures for profit under the Public Private Partnership (PPP) model and allow the Agency to buy trading stock of designated commodities for local and export markets. The amendment of the Section will allow the Agency *(sic)* venture into value addition under the PPP model. This expected result in sustainable revenue generation for the Agency.'

However, the literature on grain reserves in sub-Saharan Africa shows no examples where a government's grain marketing board has successfully performed the roles of both managing an SGR for social aims of ensuring food security and being a commercial for-profit player in the grain market. In cases where the parastatal responsible for maintaining an SGR has expanded to take on market functions, such as price stabilisation, export and import for profit, it has usually led to loss in efficiency and caused significant strain on the government budget in order to make the dual roles work. Experience elsewhere also demonstrates that giving marketing boards a commercial role crowds out the private sector, which if repeated in Zambia would heavily contradict government policy which aims to see the private sector drive economic growth.

This policy brief explores three regional cases from grain marketing boards and food reserve agencies in Kenya, Zimbabwe and Malawi. Evidence from these three countries indicates that when governments have intervened in grain markets and expanded boards beyond the social or humanitarian function of maintaining strategic reserves, it has resulted in inefficiencies in both their agricultural markets and the storage and maintenance of grain reserves, high food prices and food insecurity. The dual function of commercialising for profit while maintaining reserves for social security are contradictory and causes uncertainty in markets as other commercial players are unsure of the role of the grain boards and how they will affect prices.

2.1. Kenya

In Kenya, the National Cereal and Produce Board (NCPB) is the strategic government parastatal that deals with grain handling and marketing. Initially, the NCPB enjoyed a marketing monopoly on all types of produce ranging from maize to cashew nuts. However, the grain market was liberalised in 1993 and the NCPB was restructured to become a commercially viable entity in an effort to allow it to operate alongside the private sector and remain sustainable in the market. In terms of its social function, the NCPB also maintained an SGR stock of up to four million bags on behalf of the government to be used for food security. The NCPB's dual mandate of undertaking both social and commercial functions however posed several challenges and eventually became a significant financial burden on the government.

The decision to liberalise the grain sub-sector and let NCPB operate as a commercial entity, while at the same time perform the social function on behalf of the government caused great financial strain to the exchequer. The dual roles performed by the NCPB also resulted in conflicting policies within the institution whereby it had two different mandates and prices within the same institution. Specifically, the NCPB had to buy grain at high prices from producers to incentivise them but at the same time, was mandated to sell grain at low prices to ensure food security.[4]

As the NCPB continued to support maize prices, it was revealed that it did so selectively in areas where the government derived political support. For other parts of the country, therefore, maize prices steadily rose over the years to some of the highest in the region. Therefore, even when farmers received higher prices for the maize they sold, given that they were overall net buyers of maize, in certain areas they were buying maize at increasingly higher prices. The benefits of the NCPB intervention have therefore been highly concentrated within a small group of large, politically connected farmers.[5]

As mentioned above, one of the most pervasive effects of the inefficient grain marketing and pricing in Kenya is the exorbitant maize prices. The operations of the NCPB have raised the purchase price of maize by fixing a price floor well above market levels resulting in Kenya having among the highest maize prices in Africa.[6]

Its operations have also tightened the demand-supply balance in domestic markets, which has also had a price-raising effect on wholesale markets. It has generally set its purchase prices above those in domestic markets, which has put upward pressure on local market prices. Jayne et al. estimated both the separate and joint impacts of the NCPB's purchase and sale operations on wholesale prices and their results indicated that the NCPB's operations, between 1995 and 2005, raised wholesale market prices by 17 to 20 percent.

The inefficiencies of the NCPB described above indicate that the government has been failing to adequately fulfil its responsibility of ensuring food security for the country. The maize prices that are set are not always market driven and as such, there is poor price signalling. To achieve the intended food security, the government has had to resort to intervention measures, including financing of maize imports and subsidising inputs to farmers, causing further strain on the exchequer.

[4] Tegemeo (2009, September 18) *Proceedings of a Roundtable Discussion on Kenya's Food Situation: Challenges and Opportunities.* Laico Regency Hotel, Nairobi.

[5] Jayne, T.S., Govereh, J., Mwanaumo, A., Nyoro, J. and Chapoto, A. (2002). *False Promise or False Premise: The Experience of Food and Input Market Reform in Eastern and Southern Africa*. World Development, 30(11): 1967-1986.

[6] Demombynes, G. and Kiringai, J. (2011) *The Drought and Food Crisis in the Horn of Africa: Impacts and Proposed Policy Responses for Kenya*. Economic Premise; No. 71. Washington, DC: World Bank.

Given the attempt to combine commercial and social functions has failed the NCPB's current strategic plan outlines a restructuring of the board where it will transfer the mandate of the SGR to the Ministry of Agriculture, while the NCPB should be retained as a commercial entity and renamed Grain Corporation of Kenya. The reform also foresees the establishment of a National Food Security Agency to deal with strategic grain and food reserves, as well as the creation of a Commodity Exchange to strengthen grain trade.

In 2017, the Kenyan Government replaced the SGR that was managed by the NCPB with the Strategic Food Reserve Trust Fund (SFRTF). The SFRTF aims to increase food security in Kenya by securing strategic food reserved in both physical stock and cash equivalent. Its functions include maintaining high quality food reserves, and, with other stakeholders, stabilise food supply and prices.[7] The main differences with the SRG are:

Expansion of food reserves: The SFRTF will maintain not only grain reserves, but other staples such as rice, beans, fish, beef and milk, in order to meet Kenya's health and nutrition requirements. The plan encourages competitive bidding to ensure food remains high quality, and that it is safely stored, managed and sold. The foods were selected based on the fact that they are major constituents in the Kenyan household food basket or are currently increasing share in the household budget. The foods are also chosen for dietary and nutritional value and diversification. This is an important development in the area of food reserves and security in Africa. It recognises the fact that staples and foods of high nutritional importance serve the dual function of profit making for the government, private sector and individual farmers, but are vital for countries' food security and health. Therefore, while management boards for cash crops such as the Kenya Tea Board can be state-run and commercialised successfully, staples such as maize are tied to sensitive, health and humanitarian needs of countries, and as such cannot be managed for the purpose of profit making alone.

Oversight Board: This strategic plan for the Oversight Board is drawn from lessons learned from the management of the SGR by NCPB since 2002. In this plan, the private and NGO sector and government will be partners in the running and management of food reserves and price stabilisation for staples.

In its strategic plan, the SFRTF commits to having an Oversight Board consisting of members drawn from government ministries, NGOs and private sector who will sit three-year terms and oversee the running of the fund. Strategies for improving and maintaining transparency and accountability are detailed in the SFRTF strategic plan. The Oversight Board will have oversight over risk management, compliance, and have approval powers over fund management and regulation. For example, the board will have the power to approve the annual budget and approve trigger points for purchases, imports and price stabilisation.

[7] Strategic Food Reserve Trust Fund 2017-2021 10th and final draft

2.2. Malawi

The Malawian government created two separate organisations: one for maintaining the SGR and ensuring food security for emergencies, and the other to be a commercial player in the grain markets.

Agricultural Development and Marketing Corporation

The Agricultural Development and Marketing Corporation (ADMARC) was formed in Malawi in 1971 as a government-owned corporation or parastatal. It was established to promote the Malawian economy by increasing the volume and quality of agricultural exports in order to develop new foreign markets for the consumption of agricultural produce as well as support farmers. At first, ADMARC was considered to be more business-like and less bureaucratic than similar African parastatal bodies, but as it continued to expand its role and mandate it became less efficient and effective. This led to corruption, abuse of office and inefficiency. Eventually, ADMARC's role was reduced to that of a buyer of last resort and of maintaining a strategic reserve of maize through domestic and foreign purchases to promote food security.

Not unlike its counterparts in other Southern African countries, ADMARC has become a huge burden on the national budget and has often failed to maintain the earmarked amount for the SGR meaning that its contribution to national food security has been compromised. The current maize pricing policy of setting the price at which ADMARC buys maize from smallholder farmers has had mixed results. The policy has benefited a few farmers that have been fortunate to sell their maize to ADMARC before it runs out of money. It has also benefited small-scale traders who bought the maize at lower prices and sold it to ADMARC at higher prices. The setting of higher prices by the government inevitably increases the price of maize when ADMARC is actively involved in its purchase. As a result, maize prices in Malawi have been very unstable, with large swings after 1995.

In 2002, the World Bank engaged with ADMARC and encouraged it to reduce its financial losses by reducing its trading operations and allow increased private sector competition in the maize market. As a result, by 2009 it was growing again. Today, the government continues to intervene in the pricing by setting the price for sale of maize particularly during the lean season and food crises. Nonetheless, the private sector is free to set buying and selling prices. ADMARC still exists because it has not been possible to create a comprehensive private-sector marketing system, however ADMARC is often criticised for being inefficient and wasteful.

Apart from its inefficiencies, ADMARC has been heavily criticised for corruption and mismanagement. In the recent 2017 'maizegate' scandal, ADMARC senior officials were suspended over alleged fraudulent contracts and failure to comply with procurement policies. Because of this scandal, Malawi lost about K9.5 billion when ADMARC procured maize from Zambia from a company instead of directly from the Zambian government.[8] It was also heavily criticised in early 2013 for allowing stored grain to rot in its silos as many went hungry for lack of maize in ADMARC markets. Had that maize been released on the market before it spoiled, it was claimed, it would have helped to lower prices and have prevented many having to queue for scarce maize.

The National Food Reserve Agency

Due to the losses incurred by ADMARC as a result of its inefficiencies, in 1996 the World Bank intervened and called for the creation of a Na-

[8] Lusaka Times. (2017, April 17). *Malawi Maizegate: ADMARC boss suspended.* Retrieved from https://www.lusakatimes.com/2017/04/04/malawi-maizegate-admarc-boss-suspended/

tional Food Reserve Agency (NFRA). At its creation, it was intended to be the custodian of the SGR and complement ADMARC grain trading.[9] The NFRA was to be independent of government efforts to control grain imports and was to perform the social function of managing emergency food stock, with the idea of concentrating ADMARC activities to market related functions.[10]

This separation of social and commercial functions did not receive adequate financial support from the government and so the mandates of the two organisations started to blur. The NFRA was not responsible for price stability and was poorly funded. As a result, ADMARC kept control over domestic grain and eventually also started selling the domestic reserves even after the NFRA was formed.

However, in the absence of a clear agreement between ADMARC and NFRA, both were selling SGR maize and creating market distortions. As such, the lack of clear guidelines, the exclusion of the private sector, and the mismanagement of ADMARC resulted in maize price instability in Malawi.[11] By 2000, the NRFA accumulated a debt of one billion Malawian Kwacha due to distorted high interest rates at which it was buying maize to store in the SGR. Organisations, such as the IMF commented that Malawi's SGR was proving too costly to maintain the way it was currently operating, and that it would end up being as large a financial burden as ADMARC had been. In 2000, the Malawian government commissioned a study, financed by the European Commission, which was to form the basis for the new food security policy. The study concluded that a much smaller physical maize buffer stock be sufficient to address a localised disaster in Malawi, and instead international reserves should be built up. Unfortunately, this meant when famine hit in 2002, the grain reserve was severely depleted and the highly indebted NRFA was not in a position to respond to the crisis.[12]

[9] IFPRI. (2010). *Price Stabilization and Strategic Grain Reserves: The Case of Malawi* [Ebook] Retrieved from http://fsg.afre.msu.edu/aamp/sept_2010/aamp_lilongwe-3-2_thangata-malawi_reserves.pdf

[10] Minot, N. (2010). *Staple food prices in Malawi*. African Agricultural Marketing Project (AAMP), Maputo.

[11] Jayne, T.S. and Tschirley, D.L. (2009) *Food Price Spikes and Strategic Interactions between the Public and Private Sectors: Market Failures or Governance Failures*, No 97142, Food Security Collaborative Working Papers, Michigan State University, Department of Agricultural, Food, and Resource Economics.

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[12] IMF (2002, July) *Malawi—The Food Crises, the Strategic Grain Reserve, and the IMF.* Retrieved from https://www.imf.org/external/np/exr/facts/malawi.html

2.3. Zimbabwe

The Zimbabwean example, like the Malawian case study, shows that commercialisation of grain marketing parastatals, can drain national finances and cause disruptions and distortions in grain markets. The Grain Marketing Board (GMB) in Zimbabwe has been inefficient and ineffective in fulfilling many of its mandates which include buying and selling of any controlled product which is delivered to or acquired by it; provide storage, handling and processing facilities; maintaining SGRs for the government in line with the government policy; importing and exporting agricultural products as it may consider necessary; and establish more depots so as to stimulate agricultural products, particularly in the production of small grains. The impacts of the inefficient commercialised GMB are far reaching and threaten food security and private investment in the grain markets in Zimbabwe.

The GMB's social interests, where it strives to improve food security are often at odds with its commercial interests. Higher prices for producers often drive up the average price of maize for consumers, which reduce real incomes. As smallholder farmers are net buyers of maize, welfare gains from higher producer prices are cancelled out by the higher average maize costs.

Each year, the government earmarks an SGR of about 500,000 metric tonnes of physical stock of maize and an additional 436,000 in monetary equivalency. In most years since 2009, the GMB has failed to maintain the earmarked or adequate levels of the SGR as well as ensure proper storage of maize. Therefore, the role of the GMB in the country's grain output market is declining and the government has been urged to revise the functions and scope of the GMB, with the recommendation of scaling down commercial activities and focusing on its core mandate of managing the SGR.[13]

The deficit gap between actual costs of financing the SGR and what would be the optimal desirable funding requirements for this strategic food security facility, confirm that the SGR is unable to meet its principal objectives of guaranteeing food security and price stability due to resource limitations.

The price and input subsidy level increased by more than ten times between 2012 and 2014, from US$18mn to US$209mn, with increased input support and price support. As such, the GMB and its SGR programme has become a huge fiscal burden on the government.

These subsidies are paid for by the government from the Consolidated Revenue Fund (CRF) through the vote of the Ministry of Agriculture, Mechanisation and Irrigation Development. Taxpayers, individuals and corporates also contribute to the CRF through corporate tax. This means that while some gains are being realised by some farmers, the burden of the subsidies is falling on the government's fiscal budgets and taxpayers.

Further to this, due to the GMB monopoly, the private sector has often been squeezed out of inputs and trading activities. A weak private sector deprives government of potential tax revenue and inhibits job creation. There could be alternative private sector options, such as programmes that support private storage, trade, commodity markets, insurance mechanisms and safety net programmes, all of which can potentially contribute more to food security. However, the heavy government expenditure on activities that have potential for private sector participation limits the space to accommodate the private sector. Consequently, the government has not managed to evolve and upgrade to activities that could make the sector more efficient, such as the Commodity Exchange and the Warehouse Receipt System.

[13] FAO (2016). Food and Agriculture Policy Decision Analysis. *Zimbabwe Country Fact Sheet on Food and Agriculture Policy Trends*, 2-6.

3. Lessons from Previous Literature

The FRA was established in 1995 as the implementing arm of the Food Reserve Act. The mandate of the FRA at the time was strictly buying and holding only national commodity food reserves and achieving market price stabilisation.[14] In 2005, the FRA Act was amended, giving it authority to get involved in marketing activities by providing a market to smallholder farmers. Since then, the FRA has become the main market player in maize markets, purchasing about 83 percent of total maize marketed surplus between 2010 and 2012.[15]

Government market interventions have been credited with increasing national maize production levels in the country. Since 2009, Zambia has had surplus maize production, with total production levels averaging 2.5 million metric tonnes annually. Despite these positives, FRA policies have also had negative effects on Zambia's agricultural sector. The following are some of the key issues the FRA have faced based on previous studies that have been undertaken in previous years.

3.1. Market Price Distortions

A study that looked at the operations of the FRA was undertaken under the Food Security Research Project entitled "The Effects of the Food Reserve Agency on Maize Market Prices in Zambia." The study took note of how over the period 2000-2010, governments in Eastern and Southern Africa became increasingly involved in grain marketing via strategic reserves. It sought to find how the resurgent activities of SGRs and marketing boards are affecting market prices. More specifically, the paper covered the effects of the Zambia FRA's activities on maize market prices in the country.

From the analysis, one of the key findings was that the FRA's activities raised average market prices over the period covered in the analysis, particularly since mid-2003. The Agency's activities are estimated to have increased mean maize market prices between July 2003 and December 2008 by 17 percent in Lusaka and 19 percent in Choma.

The results in this paper suggest that one of the major outcomes of the FRA's activities since mid-2003 has been an increase in the average level of market prices in Zambia. In general, higher average maize market prices are beneficial for net sellers and detrimental for net buyers of maize. Nationally, only approximately 28 percent of smallholder farm households sell more maize than they buy; the remaining 72 percent either buy more maize than they sell (49 percent) or neither buy nor sell maize (23 percent).[16] As a result, the past interventions of the FRA have not only previously distorted the market price, but these price distortions have also subsequently had a significant negative effect on the large number smallholder farm households that purchase maize.

3.2. Targeting of Intended Beneficiaries

One of the main problems the FRA has had in its operations is that most of the programmes embarked by them have not reached the intended beneficiaries. Although it is mandated to provide relief to poor farmers, the FRA have ended up buying maize at high prices from wealthy farmers rather than the poor ones, mainly because the poor farmers are in the harder to reach, far flung areas.

[14] Chilundika N & Mulungu K (2016). *Leveraging Regional Policy Successes to Improve Interventions by FRA and the Performance of Maize Markets in Zambia*. Lusaka, Zambia: CUTS International

[15] Kuteya, A.N, and Sitko, N. (2014). *Review of the effects of FRA on Zambia's maize market: High prices despite bumper harvests.* Presented to Parliamentarians during Dialogue on Pertinent Issues in Agricultural Sector Workshop, Kariba Inn, Siavonga. Indaba Agricultural Policy Research Institute.

[16] Central Statistics Office (CSO). Various years. *Consumer Price Index (CPI) Data, 2000 – 2012.* Lusaka, Zambia: CSO

A study by the Institute for the Study of Labour (IZA) entitled "Can Crop Purchase Programmes Reduce Poverty and Improve Welfare in Rural Communities?" provided evidence on this issue. The authors found that despite FRA's core value of wealth creation for farmers and its being one of the Zambian government's two flagship agricultural sector poverty reduction programmes, its effects on smallholder farmer welfare are mixed.[17]

Only a small minority of smallholders sell maize to the FRA, for example, 10 percent of all smallholders in 2007-08 and 27 percent in 2011-12. The paper showed that wealthier farmers with large holdings earned higher incomes from these sales due to the above-market prices typically offered by the Agency. Given their already elevated wealth status, this had little or no impact on rural poverty rates, which have remained near 80 percent since the FRA was established.

The results from this report suggest that, other factors constant, on average, FRA activities have large, positive direct welfare effects on smallholder households that sell maize to the Agency; but it has large negative indirect welfare effects on smallholder households that do not sell to the FRA but are in districts where the FRA purchases maize. Consequently, the results indicated that the benefits of FRA participation for smallholders are restricted to those who actually sell to the Agency, and that smallholder households that are not able to sell to the FRA may actually be harmed by its activities. This research adds to the growing literature that highlights the unintended negative consequences of well-intended programme interventions in developing countries.

Based on the results of the study, the authors recommended that:

- Because few smallholder households actually sell to the FRA reducing the barriers to FRA participation by smallholders could improve the distributional effects of the programme.
- Reducing the transactions costs associated with selling to the FRA could also make it a more viable option for smallholder farmers. Poorer households that produce enough to sell to the FRA may be discouraged from doing so because of the delays in payments (discussed below).
- Because FRA maize purchase activities discourage private sector trading activity, government must modify FRA's purchase modalities to crowd in the private sector. This could be done by reverting back to FRA's initial approach of purchasing maize through private traders (at market prices) rather than setting up its own buying depots
- Government must invest in rural infrastructure and market information systems could help to improve smallholders' access to markets and increase their bargaining power and the farm-gate prices they receive for their crops

Speaking in Parliament on July 12, 2017, the then Minister of Agriculture Dora Siliya told the House in a ministerial statement that starting from the 2017/2018 marketing season the FRA would reduce satellite depots. Ms. Siliya said the FRA, which had previously been operating 1,223 satellite depots, would operate only 760 satellite depots countrywide. She explained that this move would considerably reduce the costs of the FRA as she pointed out that operation costs of 790 depots amount to K50.9 million as compared to a total cost of K81.9 million required for the operation of 1,223 satellite depots, resulting in a saving of K31 million. The issue of poor targeting comes up again here because if the FRA commercializes its operations, in line with their goals of earning profits, it would make more logical sense for them to use the depots that are closer to the lines of

[17] Fung, W., Liverpool-Tasie S., Mason N. and Oyelere R.U. (2015). *Can Crop Purchase Programmes Reduce Poverty and Improve Welfare in Rural Communities? Evidence from the Food Reserve Agency in Zambia*. Bonn, Germany: IZA

rail as this is would be more affordable logistically and is where many private sector players are already. This means that buying points in the far flung hard to reach areas where market access is limited would be abandoned, leaving out the small-scale farmers.

3.3. Late Payment by the FRA to Farmers

A national perception survey of Zambian small and medium scale farmers, carried out by the Centre for Trade Policy and Development (CTPD) in 2015, revealed high levels of dissatisfaction with the FRA and FISP.[18] Farmers believe these programmes should benefit the poorest famers but, according to the study, the reality is that only a minority of small and medium scale farmers sell their produce to the FRA and just over half access inputs from FISP. For farmers that do rely on FRA the vast majority were not paid on time.

Moreover, the survey showed that the majority (52 percent) of small farmers do not think that FRA has improved their livelihoods. Late payment is a particular concern for farmers, with 82 percent of those who sold their maize to FRA reporting that they were paid late in the agricultural calendar, which significantly undermined their ability to prepare for the new season ahead. When asked to identify the most important change they would like to the operation of FRA, 68 percent of respondents identified the importance of making payments on time.

All respondents were asked about the impact of FRA and FISP on their livelihoods. Around 39 percent said FRA had made them better off compared to 52 percent who thought it had made no impact on their livelihood or actually made them worse off (12 percent). Farmers with larger plots of between 6 and 10 acres were proportionately most likely to feel FRA had made them better off while farmers with plots of between 2.6 and five acres were most likely to feel FRA had made no difference to their livelihood or actually made them worse off.

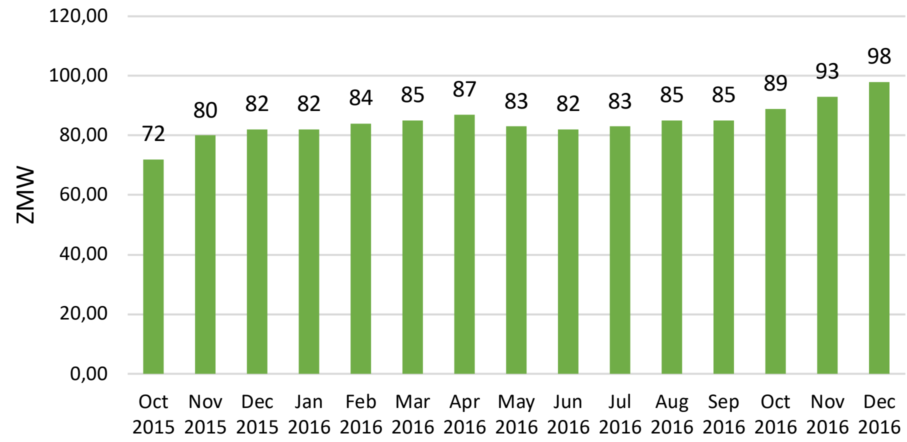
3.4. Limited Benefits to Consumers

The FRA in its activities has to take into consideration two main parties, namely, the poor farmers who produce maize to earn a living and Zambian consumers. Past experience has shown that the FRA has failed to balance between the two. In trying to reduce the prices of maize meal for consumers, it has at times provided maize grain to millers at subsidised prices, however, this subsidy has not always reflected in the price setting of maize meal.

At the beginning of 2016, the government sold 750,368 tonnes of maize to selected millers at a subsidised price of about US$170 per tonne to keep local maize meal prices low. A total of 101 milling companies were under a voluntary legal obligation to provide mealie-meal at lower prices after being provided with subsidised maize from the FRA. However, despite the FRA subsidising the price of maize to the millers, between October 2015 (the period before the FRA sold the subsidised maize) and December 2016 (the year in which the subsidised maize was sold), maize meal prices saw an upward trend. The price of breakfast mealie-meal rose from K72 to K98 and the price of roller meal rose from K57 to K81.

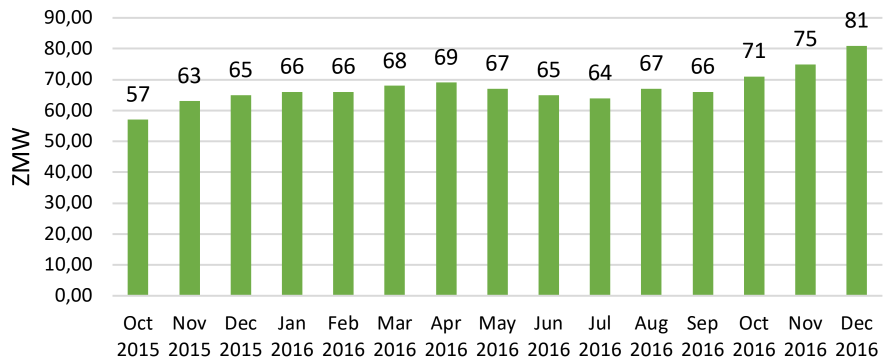
[18] CTPD (2016) *National Survey of Farmer's Perception of FRA & FISP*. Lusaka, Zambia: CTPD

Figure 1: Breakfast Mealie Meal Zambia



Note. Data for breakfast mealie-meal prices: CSO (2018)

Figure 2: Roller Mealie Meal Zambia



Note. Data for roller mealie-meal prices: CSO (2018)

In September 2012, IAPRI carried out an analysis on government's September 2011 decision to begin heavily subsidising the price of maize through the FRA to maize millers. This decision was made on the premise that having given the maize to the millers at a subsidised price, they would pass on the subsidy to Zambian consumers by offering lower retail maize meal prices.

The analysis differentiates between two phases. The first phase was from January 2000-August 2011. During this period, millers purchased maize from the market or from the FRA at competitive prices. The second phase was from September 2011-March 2012, when the FRA began subsidising maize grain to millers to millers at US$140 per tonne (equivalent to the Zambian Kwacha (ZMK) 700,000 at an exchange rate of ZMK5000/US$), while it was purchasing maize at US$265 per tonne. Further to this, the FRA provided transport for this to the maize millers' factories which further subsidised the millers' acquisition price to a point where the effective ex depot FRA price was around US$80 per metric tonne.[19]

[19] Kuteya ,A.N., and Jayne, T.S. (2012). *Is the Government of Zambia's Subsidy to Maize Millers Benefiting Consumers?* Lusaka, Zambia: IAPRI

Results from IAPRI's analysis showed that over the 11-year period (2000 to 2011), inflation-adjusted retail prices for breakfast meal declined but that after the subsidy was affected in September 2011, retail maize meal prices remained virtually constant. These findings showed that regardless of how much money the FRA spent on subsidising grain to millers, consumers did not benefit, which defeated the whole purpose of the subsidy.

The study also found that the targeting of the subsidy was inefficient and as such was only extended to some millers, not all millers in the country. Millers that did not receive the FRA subsidised maize, in particular the informal and small/medium-scale millers were greatly disadvantaged because they could not acquire maize grain at as low a price as millers receiving subsidised maize from the FRA. This distorted the market and created an imbalanced playing field between the millers who benefited from the FRA subsidised maize grain and those who did not. It was brought out in the study that such an un-level playing field will negatively affect the future competitiveness and market structure of Zambia's maize milling industry.

3.5. Policy Inconsistency

Another area that has also been as issue with the FRA has been that of policy inconsistency. In 2014, the Government of Zambia through the FRA purchased over 900,000 metric tonnes of maize but had committed to buying only 500,000 metric tonnes earlier in the year. Based on this, the Centre for Trade Policy and Development (CTPD) undertook a study entitled "Zambia needs to re-look at the current role of the Food Reserve Agency (FRA) if maize marketing is to work for Zambia."

CTPD noted that Government, through both the then Minister of Agriculture and Livestock, Honourable Wilbur Simuusa, and Minister of Finance, Honourable Alexander Chikwanda acknowledged there were funding gaps to fully finance the purchase of the maize, which meant they needed to borrow or find alternative financing to close the gap.[20] Other than the financial gap, the FRA also purchased over and above its storage capacity of 872,000 metric tonnes. This announcement by the government was a roll back on its commitment because at the beginning of 2014, the Minister of Agriculture indicated 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.

Findings from CTPD's report strongly stressed the need for Zambia to employ an alternative policy approach to maize marketing. More specifically, the report findings indicated that institutional reforms of the FRA are a must for Zambia. The report indicated that 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 at an increasingly high cost to the Zambian treasury. During 2010-2012 Government was spending over 50 percent of the agriculture budget on FRA alone. Furthermore, many of the purchases have been beyond what was budgeted for and could only be financed through borrowing.

CTPD highlighted four key issues arising from policy inconsistency. Firstly, the private sector was crowded out by the FRA. In the years 2010, 2011 and 2012 total maize production was 8.6 million metric tonnes of which 4.6 million metric tonnes was surplus. The FRA targeted to buy 1.5 million metric tonnes. However, they bought 3.7 million metric tonnes (80 percent of the surplus maize). This routine move of buying beyond its target as well as buying high and selling low, discouraged many private sector players from participating in the maize market. Secondly, competitiveness of the sector was reduced. Many private sector actors exited the market as a result of the distortions brought about by the FRA. This exit of both informal and formal players in the maize market reduced the competitiveness of the sector.

[20] CTPD (2014). *Zambia needs to re-look at the current role of the Food Reserve Agency (FRA) if maize marketing is to work for Zambia*. Lusaka, Zambia: CTPD

Millers then began to rely on the FRA for their milling requirements.

Thirdly, there was reduced regional comparative advantage. During the period 2010-2012, regional maize prices were costing around US$260 per metric tonne. However, because the FRA had been offering high prices to small holder farmers, 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. FRA exports because of these high costs were unprofitable. In 2010 alone, the FRA made 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.

And finally, there was disruption in the informal maize market. Because the FRA bought the bulk of the maize, it became difficult for informal sector players to access it because the FRA sold the maize by tender and in large quantities which small grain traders could not afford.

Despite the government liberalising the agricultural sector, it still maintained discretional power to intervene in the market. These unplanned interventions are among the main reasons Zambia has not seen the potential benefit of maize trade to the economy. Increased state intervention crowds out the private sector and distorts the market.

4. Conclusion and Recommendations

This paper has shown how an expansion of the FRA's role into a commercial entity would severely undermine the development of Zambia's agricultural sector. It would significantly weaken the private sector in Zambia, which flies in the face of the Government's commitment to reduce its own role in agriculture marketing. The Ministry of Agriculture argues that FRA can become commercially viable by raising revenue through exports. However, the assumptions underpinning this argument are flawed and contradictory. FRA cannot simultaneously make a profit through exports and stabilise prices. Nor can it make a profit and support farmers, which it has traditionally done by offering them an above market-price.

Evidence from Kenya, Malawi and Zimbabwe, show that a commercial role for marketing boards is incompatible with the social function of providing farmers with a social safety net. The Kenyan example shows how the social function of maintaining strategic grains and the commercial function of grain marketing and participation in grain markets for profit are contradictory and create inefficiencies when combined into one institution. NCPB commercialisation increased opportunities for rent seeking in Kenya, meaning that only a small number of politically connected farmers benefit from NCPB activities in the grain market. The Zimbabwe and Malawi examples give evidence that commercialisation does not necessarily mean financial independence; both the GMB and ADMARC continued to drain national resources after taking on market reforms to commercialise. In all cases, it is clear that when the government parastatal intervenes in markets beyond the social role of maintaining SGRs, it can cause disruptions and unpredictability in maize markets, which affect food security and agriculture sector growth.

The proposed amendments would in effect recreate the National Agricultural Marketing Board (NAMBOARD), which was previously abolished because it proved highly ineffectual, and badly damaged agricultural-led development in Zambia. NAMBOARD extended its duties beyond providing a guaranteed market and ensured that the country was adequately supplied from internal production and through importation when necessary. NAMBOARD, however, encountered numerous challenges in the efficient execution of its duties, these being internal and external. The increasing interference of government constrained management of the ability to work efficiently. These led it being ineffective and labelled as a failure. A move to commercialise, would therefore, undermine agriculture led growth in Zambia.

Other than being a strain on Zambian treasury, the FRA has faced other issues including inadequate targeting, market price distortions, limited benefits to consumers and policy inconsistency. These issues have, however, not been raised as areas of concern in the proposed review of the FRA Act. In order for the current review of the Act to be sufficiently comprehensive based on this and the literature reviewed, the policy brief makes the following recommendations:

1. The FRA should stick to its core mandate as a national strategic reserve and not expand its role to that of a commercial player in the grain market. Based on evidence a food reserve agency cannot play a role of maintaining the strategic grain reserve and ensuring food security for emergencies while simultaneously playing a commercial role.

2. The FRA in its review is seeking to address the operation cost challenges it has faced, however, as has been shown in this paper, the problems of the agency are deeper than just those of fiscal nature. The FRA has lacked proper targeting, been inconsistent with policy, had limited benefits to consumers and has caused market distortions. As the FRA Act is being reviewed it will also be important that amendments be made to also address these issues.

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Annex 1: Joint Statement on FRA

Zambian agricultural sector and diversification under threat from proposed amendments to the FRA Act

The Government of Zambia has through the Ministry of Agriculture announced that it will be reviewing the Food Reserve Agency Act Chapter 225 of the laws of Zambia. The Government sought views on the proposed amendments and on Wednesday 6 December held a consultative workshop.

We welcome the Government's decision to review the operations of the FRA; this provides an opportunity to address key challenges associated with FRA, and provide learning to other countries in the region facing similar challenges. These include over dependence on Government funding, high operating costs and unsustainable subsidies.

We also recognise that some of the measures proposed such as defining the level of national strategic reserves, improving corporate governance and aligning the FRA's financial year with the budget cycle could help improve food markets in Zambia.

However, we, the Zambia National Farmers Union (ZNFU), the Grain Traders Association of Zambia (GTAZ), the National Union of Small Scale Farmers of Zambia (NUSFAZ), the Consumer Unity and Trust Society (CUTS), the Centre for Trade Policy and Development (CTPD), and FoodTrade East and Southern Africa (FoodTrade ESA) are deeply concerned by the proposal that the FRA should be given powers to buy and trade stock of designated commodities for local and export markets. Such a significant expansion of its role would severely undermine the development of Zambia's agricultural sector, affecting both small holder farmers and consumers. It would significantly weaken the private sector in Zambia, which contravenes the Government's commitment to reduce its role in the agriculture sector.

The 7NDP, the Zambia CAADP Compact, National Agricultural Policy, the Zambia Plus and the PF 2016 Agricultural Manifesto, all recommend that agriculture should be private-sector led - if the proposed amendments to the FRA Act are implemented, they would severely undermine the private sector in Zambian agriculture.

The Ministry of Agriculture argue that the FRA can become commercially viable by raising revenue through exports. But the assumption underpinning this argument is flawed and contradictory. FRA cannot simultaneously make a profit through exports and stabilise prices. Nor can it make a profit and support farmers, which it has traditionally done by offering them an above market-price. Furthermore, it is not clear why the Government believes it can make a profit given that Zambia produces maize at similar costs to countries in the region.

The proposed amendments would in effect recreate the National Agricultural Marketing Board (NAMBOARD), which had to be abolished because it proved highly ineffectual, and badly damaged agricultural-led development in Zambia.

We have yet to come across a country that has successfully implemented the commercialisation of their food reserve agency and our concern is that expanding the role of the FRA could further burden the Treasury and the Zambian taxpayer. Such an outcome would be particularly harmful to the Zambian economy at a time Zambia is seeking to undertake fiscal consolidation.

International evidence and the experience in Zambia demonstrate that the best way to address the concerns about financial unsustainability and high operating costs of the FRA is to scale back its role to focus on providing the country with a strategic grain reserve and servicing remote areas which are inaccessible to the private sector.

Numerous studies by various organisations including CUTS, the Indaba Agricultural Policy and Research Institution (IAPRI), CTPD and FoodTrade ESA as well various international institutions including the IMF, have shown how the expansion of the role of the FRA beyond its mandate of strategic grain reserves has proved regressive in previous years.

These amendments are concerning and risk negating the small gains made within Zambia's agriculture sector. One consequence of such a move would be the loss of private investment in agriculture, and reduced opportunities to diversify the economy. Further to this, such a move would have significant negative impacts on the Zambian Commodities Exchange (ZAMACE). On this basis we recommend the Ministry of Agriculture drops the proposed amendments aimed at commercialising FRA and engage further with stakeholders to develop a set of evidence-based reforms that help agriculture in Zambia grow.

This statement is supported by the Zambia National Farmers Union (ZNFU), the Grain Traders Association of Zambia (GTAZ), the National Union of Small Scale Farmers of Zambia (NUSFAZ), the Consumer Unity and Trust Society (CUTS), the Centre for Trade Policy and Development (CTPD), and FoodTrade East and Southern Africa (Foodtrade ESA) and we stand ready to work with the Government to reform the FRA to ensure it becomes a more effective and sustainable organisation with a smaller drain on public finances.

Note: Daily Nation 9th February 2018 "Zambian agricultural sector and diversification under threat from proposed amendments to the FRA act"