A REVIEW OF THE PROPOSALS OF THE FOOD RESERVE ACT
CHAPTER 225 OF THE LAWS OF ZAMBIA

Preamble

The proposed amendments to the FRA Act are deeply concerning. Taken, they move the FRA's mandate from that of a strategic reserve institution to that of a trader and exporter in the market place. This flies in the face of commitments from the Government to reduce their involvement in the agricultural sector, and specifically maize markets as embodied in the 7NDP, the Zambia CAADP Compact, National Agricultural Policy, the Zambia Plus and the PF 2016 Agricultural Manifesto, and risks adding to Zambia's debt burden and stifling growth in the agricultural sector. The buzz words in all these documents is that 'Agriculture will be private sector-led, transparent and predictable'. Yet, the proposed amendments to the FRA act will take the country in the opposite direction.

The FRA's proposals are underpinned by assumptions that cannot be empirically justified. The proposals suggest that the FRA can both stabilise prices (carrying out its traditional social function), while at the same time become commercially viable. The experiences of the National Agricultural Marketing Board (NAMBOARD) are still fresh with us. The Board miserably failed to balance the two roles, which is why it was scrapped off. Experiences in Malawi, Zimbabwe, Tanzania and Kenya show exactly the same dismal performances. To ask the FRA to provide price stabilisation and be commercially viable is to ask it to carry out two contradictory roles. To be viable, the FRA must buy commodities at a commercial price which will fluctuate based on supply and demand. Moreover, the FRA has traditionally, in pursuit of its social function, provided an above market price to farmers, which negates its ability to export profitably.

Even if the FRA buys at market prices, the assumption that there is scope to make a profit via the local or export markets is based on a flawed premise. Zambia's costs of production are relatively high compared with surrounding countries in the region and therefore not competitive under normal weather conditions. The 2016/17 situation was an isolated case where Zambia was the only country in the region with surplus maize due to the El Niño weather phenomenon. It is therefore, wrong to assume that the FRA would make profits on exports on an annual basis. Further the proposal to use a Public Private Partnership (PPP) model to allow the FRA to trade on a commercial basis would not guarantee the desired results.

The food price dilemma where farmers demand higher prices and consumers demand lower prices will always be a hindrance to fully and sustainably commercially viable FRA. Instead, the proposed amendments are likely to leave the public finances in a worse position – the cost of buying and storing FRA purchased commodities will increase; there will be zero profit from trading (unless FRA undercuts farmers and pays below market price); and the FRA's actions will suppress the private sector and reduce tax revenue on their activities. Ultimately, this will be a fiscal hit for the Government, increasing the deficit and driving up debt.

Finally, these amendments risk undermining the important strides that have been taken in recent years in the agricultural sector in Zambia. They threaten the welcome shift to the e-voucher on the input side, and represent a fundamental risk to the operationalisation of ZAMACE and efforts to diversify the agricultural sector. In addition, these amendments create a real risk of deterring investment in agriculture depriving Zambia of local and international investments and significant growth potential. Above all, the proposed commercialisation of FRA in the agricultural value chain will completely kill the private sector in Zambia and with the potential of growth, job creation and prosperity.
Response on specific amendments

Amendment 1: To amend 4 (2) (a) in the Act that provides for administration of the national strategic food reserve. Amendment to define national strategic reserve and designate the strategic facilities as strategic locations

The principle behind the amendment is reasonable, however it is very important to also specify in the revised Act the commodities and corresponding volumes that will contribute to the strategic reserve. To ensure the mandate as set out in the proposed amendment is met, there is a need to review these volumes periodically (for example every five years). This will ensure there is consistency in the market and prevent price destabilisation.

Based on the definition in the amendment that the strategic reserve should cover lean periods and lead times to mobilise resources, the strategic reserve for maize should not exceed 300,000 MT based on the current population and the experiences the country has had since the inception of the FRA. This will provide a minimum short-term level of cover as required under the terms of the Act, but can be supplemented with a cash reserve or paper based options to fund imports for longer-term cover.

The clauses relating to the designation of storage facilities require more information from the FRA, as to whether this applies to the strategic reserve stores or FRA storage facilities in general.

Amendment 2: Allow the Agency to engage in business ventures for profit under a Public Private Partnership (PPP) model

IAPRI disagrees with the proposals under this amendment as the reasoning behind them is fundamentally flawed.

First, this goes against key commitments from the Government to reduce their involvement in the agriculture sector, and specifically maize markets. For example, the 7NDP states “In addition, the Government will reform the Food Reserve Agency away from commodity marketing to focus only on strategic food reserve purchases” and the PF 2016 Agriculture Manifesto states “the PF government shall: ... promote the participation of the private sector in agricultural commodity markets...[and]... Review the FRA Act so as to make the FRA buyer of last resort and strictly for National Strategic Reserves, and to curtail the offloading of FRA maize on the local market, except during extenuating circumstances such as the need to ensure availability of the commodity and price stabilisation”

Second, there is no evidence to suggest that this will result in sustainable revenue for the FRA. Evidence from across the region and Zambia’s own history shows that when a Government takes the lead in agricultural markets, the results have been disastrous for the farmer, the consumer and for the public finances (as the experience of NAMBOARD demonstrates). The bigger the role of Government the bigger the market distortion and the more it undermines the private sector involvement. In addition, this will undermine recent market led reforms that have seen Zambia become one of the leading investment destinations for private agriculture. There is a real risk these reforms lead to a significant scaling back of foreign investment in agriculture, with a subsequent loss of jobs and tax revenue.

Amendment 3: Amendment to section 4 (2) b & c for the establishment of a market information system through the Agency where all other stakeholders will be required to be registered with the Agency

The progress that has been made in terms of the establishment of ZAMACE after the passing of the Credits Act and increased participation of private sector in grain markets requires an independent, transparent and accessible market information system to sustain it.

So, the proposal for an effective and sustainable market information system in long-overdue. However, this should not be the preserve of the FRA. Instead there is a need for an independent organisation capable of collecting information from the agency and the private sector for the benefit of the market.

Such a system can be empowered via this Act, but should not be the preserve of the FRA. Such a function would give the agency undue competitive advantage that could stifle private sector investment. It needs an independent organisation to deliver it.

Funding such a system should not be funded via a registration fee to FRA (or to other organisations). Rather, innovative funding systems should be considered, for example a transaction levy via ZAMACE or a small charge on commodity transactions over a certain volume (for example 20 tonnes). Using an automated system such as ZAMACE would support reductions in the burden of doing business in Zambia.

The amendment in relation to weights, measures and standards is no longer relevant. IAPRI does not see the case for amendments to the Act in this area. ZAMACE has led work to harmonise a system of weights and standards and this private led development should be given space to grow. Further amendments risk unnecessary over legislation.

Amendment 4: Amendment to section 4 (e), establishment of storage infrastructure in designated locations
The private sector has the capacity to build new storage, so rather than providing new facilities directly, the Government should incentivise the private sector to build storage in areas where it is lacking. This storage should focus on growing new markets and providing storage to support trade.

**Current FRA storage capacity amount to over 1 million MT.** The Act and agency should focus on rehabilitating this storage and ensuring it meets required warehousing standards. With the exception of designated strategic reserve locations, these facilities should be available for the private sector to lease. The role of the FRA should be to provide oversight of these stores (and they could eventually be managed by the private sector to further reduce costs).

This would make the operations of the agency more cost effective and be in line with the Government’s well publicised move to a private sector led market and rationalise the operations of the FRA (as set out in the 7NDP and PF Manifesto)

**Amendment 5: Amendment of section 10 – Reduction of Buying points and allow the Agency to Export designated commodities**

This amendment is very broad and mixes a number of important points. The amendment seems to suggest decreasing the number of buying points, but at the same time increasing the FRA’s remit to become an exporter of commodities. The rationale suggests that this will enable the FRA to both stabilise the market price, reduce costs and raise revenue from exports. There is no evidence from across the region to suggest that could be successful.

First, it not clear how reducing the number of buying points will support the FRA’s mandate to deliver a strategic reserve and ensure food security in Zambia.

Second, the FRA was set up to achieve social objectives. Achieving these objectives is usually a challenge due to the conflicting interests between producers and consumers. So the assumption that the FRA can be a commercial entity and at the same time continue to serve this social function is not realistic. To be a commercial entity the FRA will need to operate with commercial savvy and buy and sell commodities at market prices – something that is not feasible and which historically it has not achieved.

Third, the proposal reverses the principle of private sector led market development. This will decrease participation in agriculture and could reverse much of the recent investment in agriculture (for example in storage facilities) and could see the recent increases in productivity and diversification undermined.

Finally, the regional evidence suggests that the proposed change to the FRA’s mandate will not deliver the expected outcomes. In Malawi, the Agricultural Development and Marketing Corporation ADMARC has been hindered by government intervention, rent seeking and selective tenders. To date, it has just been a loss making venture, and combined with the Malawian National Food Reserve Agency is a drain on state resources. A similar story is visible in Zimbabwe where the Grain Marketing Board distorts the market and reduces private sector involvement. Again, this is a drain on state resources – this year, for example, the Zimbabwean GMB paid over 250% above the market price for maize.

The proposed amendments could lead to a similar situation in Zambia, as Figure 1 below shows that the FRA has rarely brought maize at market value, so there is limited scope to make profit on either the domestic or external markets. Further, the actions will suppress the private sector and increase costs for the Government leading to serious financial hemorrhage to the country.

**Figure 1: Comparison of FRA pan territorial prices to Lusaka nominal maize market price**

![Figure 1: Comparison of FRA pan territorial prices to Lusaka nominal maize market price](image-url)

**Source:** Ministry of Agriculture Market information Centre 2003-2015, IAPRI provincial data collection programme, 2016 AMIC, and FRA announced prices
There are no objections to aligning the FRA’s financial year to the Budget cycle.

The proposal for the FRA to retain a portion of funds from the sales needs more thought. As argued above, there is no need for FRA to assume the role of a commercial entity and therefore retain funds from sales as proposed. Instead, all funds should be returned to the Treasury. Other innovative options of ensuring timely release of SGR funds would be to consider a national strategic reserve fund where the sales revenue could be deposited.

Amendment 6: Amendment of the Act to allow for alignment of the financial year and allow FRA to retain portion of funds from sales of commodities

Reforms to the Governance structure are welcome provided that they support the current mandate of the FRA and conform to the Proposed Agricultural Marketing Bill.

Recommendations

IAPRI makes the following recommendation to assist the Government to effectively and sustainably reform the FRA.

- There is no question that Zambia requires a well-managed strategic grain reserve to stabilise staple food prices for the benefit of both consumers and producers.

- As an initial step towards having an effective stabilisation policy, the Government should review the country’s strategic grain reserve requirement, including its size and procurement modalities. In collaboration with stakeholders, the Government should put in place clear trigger mechanisms for FRA grain purchases and releases for effective price stabilization.

- To allay the concerns of the private sector about FRA’s future involvement, the government should revert to the original FRA mandate as set in the 1995 FRA act of maintaining strategic grain reserves for the country and confining the Agency’s procurement activities in outlying areas of the country where the private sector finds it difficult to operate.

- The infrastructure to procure and import grain have improved over the years and there is need for the FRA to explore cheaper alternatives to holding physical stocks of strategic reserves for at least eight months.

- IAPRI recommends FRA have a mixed portfolio of physical and virtual stocks as well as consider establishing a Strategic Reserve Fund to sustainably manage the SGR. A good example in this respect is what is happening in Kenya today. This will limit the fiscal exposure of the Government through storage costs and the consequent losses. Further, the Government in collaboration with stakeholders can invest more to strengthen the early warning systems.

- There is need to fully embrace the use of Commodity Exchanges and Warehouse Receipts System: Zambia should be commended for having made tremendous steps towards having a private sector-led commodity exchange by passing the Credits Act of 2010 and putting in place a statutory instrument empowering ZAMACE to oversee the setting up of the Warehouse Receipt System. In order to fully operationalize ZAMACE there is need for the Government as a big market player to take a deliberate decision to purchase Strategic Grain Reserves requirements through the exchange. This will fast-track sustained capitalisation of the exchange.

- Government should provide a stable and predictable policy framework to hasten Zambia’s potential of becoming a Regional Food Basket. Ad hoc export bans/restrictions take away opportunities for both local and export markets. There is an urgent need to resume the process of the enactment of the Agricultural Marketing Bill. The Bill will provide guidance on the involvement of government in the maize market, fertilizer, seed, crops, and livestock markets, bringing the most needed policy transparency and predictability that will enhance the market for smallholder farmers. The Act will foster constructive and transparent dialogue with all stakeholders before decisions are made.

Amendment 7: FRA to seek to enhance Corporate Governance

ABOUT IAPRI

Our Vision:
A Zambia free of hunger, malnutrition and poverty through sustainable agricultural transformation

Our Mission:
To provide evidence-based policy solutions through high quality research and outreach services for the transformation of Zambia’s agricultural sector to achieve sustainable broad-based pro-poor growth

Core Values:
Integrity in how the Institute conducts itself; Dedication to achieving the Vision and Mission; Excellence in the quality of work; Accountability in the actions and results delivered; and, Sensitivity to the needs of the poor in the agricultural sector.