Key Issues in Grain Trade & Marketing

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Government’s Agricultural Marketing Policy Challenge

The Food Price Dilemma

Farmers lobby for higher FRA prices

Lower consumer prices, usually culminating into consumer subsidies
Government vs Private sector!

Unpredictable policies

Mistrust between Private sector and Government

Limited private sector investment and market participation
Private sector investments in grain trading

- About US$80 Million worth of investments by large grain traders
- About 947,000 MT of storage capacity
- In 2016, large grain traders accounted for 40% of maize and soya beans purchases
Grain marketing innovations: Creating marketing opportunities for smallholders

**Structured Grain Markets**
Large grain investments have facilitated movement away from spot markets to structured markets for small holders farmers through models such as pre financing, contract farming and forward contracts.

**Credit Finance**
Seasonal credit for production and capital credit for tractors and implements provided through partnerships with ZNFU’s Lima Credit Scheme and financial institutions.

**Private Sector Extension Services**
- Aims at increasing farmers’ productivity. Farmer are trained in smart agricultural practices such as Conservation Agriculture and business skills, compliments public sector extension efforts.

**Weather Index Insurance**
Due to increased weather related risks, large grain traders facilitate smallholder farmers’ access to crop insurance for contracted farmers.

**Information Communications Technologies**
ICTs for agriculture are increasingly being used to provide market intelligence such as SMS based price information systems. Other services include e-extension and mobile payments as an alternative to cash.

**Warehouse Receipt System**
Farmers can deposit grain into certified warehouses and receive a warehouse receipt which can be used to obtain credit from banks.
Policy Instability a major challenge!!!
Unpredictable Export bans

Ad hoc export ban: e.g. the export ban during the 2016/17 season affected maize prices private sector participation in the 2017/18 season.

This causes price instability (volatility) in grain markets:

- Unpredictable environment negatively affects private sector investments/innovations
- Farmers lose out on market opportunities – pre-financing, contract farming, forward contracts cannot function well with high volatility
Operations of the FRA in the grain markets

- Discretional nature of FRA operation is a challenge because it is not **rule-based** hence the need for the enactment of the Proposed Agricultural Marketing Act of 2010.

- The current **review of the Food Reserve Act of 2005** seeking to increase the marketing role of the FRA is **at variance with increasing private sector investments and innovations** as FRA should be for **strategic reserves**.

- FRA increased investment in storage capacity to **2 Million MT**, which will add **1,135,000 MT**: private sector is also increasing storage (Currently at **947,000 MT**).

- **High cost to the treasury**: related to the quantities purchased leading to delays in paying farmers.
One of the innovations is Warehouse Receipt Systems (WRS) which can benefit smallholders.

However, for ZAMACE require volumes and this could partly come from government.

If government can purchase strategic reserves through ZAMACE this could strengthen the exchange and moderate market interference.
Millers Dependence on the FRA

- Millers have become increasingly dependent on the FRA for maize offloaded to them often at a cheaper price. As a result, contracting between millers and grain traders have reduced.
Questions for marketing policy discussions

1) What needs to be done to enhance private sector participation and how can smallholders’ benefits be enhanced?

2) What policies or mechanism do we need to be in place to prevent the occurrence of ad hoc export bans?

3) What is the need for the FRA and what should be its role?

4) Should the FRA be extending its marketing role instead of concentrating on Strategic Grain Reserves?

5) Should FRA really be investing in storage facilities when the private sector is also investing heavily in storage facilities?

6) How does Government manage Strategic Reserves, while allowing markets to work through innovations such as ZAMACE
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