STRATEGIC GRAIN RESERVES AND PRIVATE SECTOR INVESTMENTS

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Dialogue on Public Spending in Zambian Agriculture: Myths Versus Facts, with the Zambia National Assembly
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Chita Lodge, Samfya
Focus

The arguments for a strategic grain reserve

The interface between private sector Investments and the FRA purchases (SGR).

FRA activities: Current and potential Practice
Some important questions

Does Zambia need to maintain a 500,000 SGR?

How do current SGR practices affect the performance of the agriculture sector?

- Private sector investments
- Fiscal exposure
- Functioning of the Warehouse Receipts System.
  - Stocks rotations
  - Debt swaps
  - Volume of purchases
The Rationale for Strategic Grain Reserves

- Maintaining strategic grain reserves is a very old practice.
- Three reasons for this:
  - Uncertainty in harvest
  - Inelastic consumption
  - Local populations’ inability to move land
Primary objective of SGR is to ensure food security but is also a market intervention tool to reduce farmers’ price risk and stabilize consumer prices.
Specific objectives of Zambia’s SGR

- To facilitate emergency relief during food shortages and crises
- To create a ready and accessible market for maize farmers to reduce their price risk.
- To provide buffer stocks, which can be used to maintain price stability
However, the SGR has problems…

1. SGRs have proved not to stabilize prices, especially when export bans are in place
2. Crowds-out private sector investment
3. Strains the already squeezed budget e.g.

In some years, the allocation can be as high as 42% of the agricultural budget. e.g. 2016 National Budget
How can we better achieve the SGR Objectives?
1. Ensuring food availability with less: Case for downscaling the SGR

The SGR has remained at 500,000 MT since 2014.

This estimate took into account:

- 100,000 MT consumption requirement.
- A five month lead time to importation.

A lot has changed since 2014, and the 500,000 MT is no longer be realistic.
Maize production has increased over time mainly due to area expansion and a shift in production zones towards the north.

Source: CFS, various years
B. Changing consumption patterns

Starchy staples have declined as a proportion of total expenditure for Zambia

- E.g. proportion of food budget spent on maize fell from 23% in 1998 to 14% by 2015
C. Increased private sector investments in marketing and storage capacity

Private sector investments in storage was 550,000 MT in 2013

Private sector investment has increased storage capacity to 947,000 MT of maize by 2018

Source: GTAZ
What does this mean?

Maize grain shortfalls are more unlikely because:

- Share of consumption expenditure on maize has gone down
- Zambia is now a consistent surplus producer of maize
- Private sector capacity has improved for storage, production and processing.
Ensuring food security with less: 

case for scaling down SGR

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<th>In view of the changes alluded to:</th>
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<td>• Size of SGR could be reduced to 150,000 (3 months lead time) or 350,000 MT (5 months lead time) for 2018/19 season without compromising food security</td>
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<td>• BUT! This does not mean procuring 500,000 MT each year in addition to what is in reserve.</td>
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### 2. The SGR and agricultural performance

Activities of the Food Reserve Agency affect the agricultural sector in two main ways:

- Takes up a large proportion of the agricultural budget, next to the FISP (~42% in some years).
- Tends to affect private sector performance in the maize market.
  - Profitability
  - Development of a functional Warehouse Receipts System
The link between the SGR and private sector performance

The timing of stock rotations is usually to the sector’s detriment.

Rotations are done at a time when private sector wants to sell its maize to the industry.
• Usually to millers at a lower price than the market price with the hope of stabilization market prices.
• This is never achieved, it’s a game of chess between the benefiting millers and the government

Debt Swaps: In 2018, the government paid off transporters in maize equivalents, these later sold their maize to millers at prices below the market price
The link between the SGR and private sector performance

However, because export bans/other administrative trade restrictions are usually in place, there is no profitable alternative market for the private sector.

- Diminished ability to pay back loans
- Exit of firms (e.g. Cargill)
- Downscaling of operations (e.g. AFGRI corporation)
- Risk of bank repossessions of farms
- A commodity exchange/warehouse receipts system which cannot function.
Recommendations: SGR Size

Revise the SGR to take into account the changes

• 150,000MT-350,000MT is optimal

Periodically review the SGR’s size
Recommendations to minimize the FRA’s unintended impacts on the sector

Reducing the role of the FRA will crowd in private sector investment and promote productivity growth.

Pricing and timing of stock rotation should be well-managed.

• Enhance consultation in stock rotation with industry and improve predictability as per FRA Act 2005 provisions.
Recommendations to minimize the FRA’s unintended impacts on the sector

- Discourage debt swaps in FRA operations. The use of market instruments is encouraged.
- Price stabilization role of SGR is questionable and could be dropped and resources re-allocated to more productive areas.
- Reduce direct GRZ involvement in grain storage to promote private sector storage coverage.
- Promote WRS development by FRA certifying some of its storage under the WRS.
Thank You
Bonus Slides
Potential Income from FRA Storage Certification under WRS

US$250,000/month

Assuming:

- An all-in storage rate of US$2.5/MT/month.
- 20% of current SGR storage certified (i.e. 100,000MT)
Key assumptions

- 255 g per capita per day
- 6.5 million vulnerable population
- 95% target of the vulnerable for SGR.
Summary Points

Size of the SGR

• Current purchases of 500,000MT is outsized for ensuring food security
• Revise the purchases to 150,000 MT (3 months lead time) or 350,000 MT (5 months lead time) for 2018/19 season
• Periodically review the SGR size to reflect changing population dynamics, market, availability & consumption patterns

FRA Reforms

• Procure less maize and rotate it through a transparent system e.g. ZAMACE or private sector
• Pricing and timing of stock rotation should be well-managed
• Reduce direct GRZ involvement in grain storage to promote private sector storage
• Promote WRS development by getting the FRA to certify some of its storage.