

REPORT OF THE COMMITTEE ON AGRICULTURE FOR THE FIRST SESSION OF THE ELEVENTH NATIONAL ASSEMBLY APPOINTED ON FRIDAY, 21ST OCTOBER, 2011

Consisting of:

Mr R Muntanga, MP (Chairperson); Mr B Hamusonde, MP; Mrs A Munshya-Chungu, MP; Mr K Chipungu, MP; Mr M Mutale, MP; Mr M Ng'onga, MP; Mr P Njeulu, MP; and Mr H Chansa, MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee has the honour to present its Report for the First Session of the Eleventh National Assembly.

Functions of the Committee

2.0 The functions of your Committee are as follows:

- (a) study, report and make appropriate recommendations to the Government through the House on the mandate, management and operations of the Government ministries, departments and agencies under its portfolio;
- (b) carry out detailed scrutiny of certain activities being undertaken by the government ministries, departments and agencies under its portfolio and make appropriate recommendations to the House for ultimate consideration by the Government;
- (c) make, if considered necessary, recommendations to the Government on the need to review certain policies and certain existing legislation;
- (d) examine annual reports of government ministries and departments under its portfolio in the context of the autonomy and efficiency of Government ministries and departments and determine whether the affairs of the said bodies are being managed according to relevant Acts of Parliament, established regulations, rules and general orders; and
- (e) consider any Bills that may be referred to it by the House.

Meetings of the Committee

3.0 Your Committee held fifteen (15) meetings to consider submissions from various witnesses on Crop Marketing in Zambia. Your Committee also reviewed the Report of the Auditor General on the Management of Maize Grain by the Food Reserve Agency (FRA).

Report of your Committee

4.0 This Report is in five (5) parts. Part I deals with Crop Marketing in Zambia while Part II provides a review of the Report of the Auditor General on the Management of Maize Grain by the Food Reserve Agency (FRA). Part III highlights your Committee's findings arising from the Tour and Part IV gives your Committee's Observations and Recommendations. Lastly, Part V is the Conclusion.

PART I

CROP MARKETING IN ZAMBIA

5.0 Your Committee was privileged to study crop marketing in Zambia. This followed concerns from various stakeholders that, while Zambia had recorded a bumper harvest in the 2010/2011 farming season, the crop might go to waste with the onset of the rains, largely because of poor marketing and inadequate storage facilities. Moreover, complaints were recorded that some farmers who had already supplied their produce to the FRA had not been paid while others, particularly, small-scale farmers had been forced to sell their produce to unscrupulous businessmen and women at uncompetitive prices because of limited access to markets. In undertaking this study, your Committee hoped to achieve the following objectives:

- a. establish Government policy on crop marketing;
- b. ascertain the adequacy of crop storage facilities in Zambia; and
- c. recommend the way forward.

In order to gather adequate information on this subject, your Committee sought written memoranda and oral submission from the Ministry of Agriculture and Livestock (MAL), Food Reserve Agency (FRA), Agricultural Consultative Forum (ACF), Grain Traders Association of Zambia (GTAZ), Millers Association of Zambia (MAZ), Zambia National Farmers Unions (ZNFU), Indaba Agricultural Policy Research Institute (IAPRI), and Zambia Agricultural Commodity Exchange (ZAMACE). The summary of the findings of your Committee are set out below.

i. Government Policy on Crop Marketing

Your Committee was informed that the Zambian Government supports free trade in agricultural marketing, except where public interest in safety, health, and food security was compromised. Several witnesses, however, bemoaned the lack of comprehensive agricultural marketing and legal policy framework to guide the functions of the agricultural sector. It was noted that, although the Zambian Government supports free trade in agricultural marketing, occasionally, exports of grain are restricted or delayed. This action had always resulted into loss of revenue and loss of export opportunities.

ii. Players Involved in Crop Marketing

Your Committee was informed that the key players involved in crop marketing were Food Reserve Agency, co-operative movement, small traders (middle men), large grain traders, millers, and NGO's. The small traders mainly purchased the crop on behalf of the large grain traders and millers on a commission basis.

Further, your Committee was informed that, recently, some marketing activities had taken place through the Zambia Agricultural Commodity Exchange (ZAMACE). It was argued that trading on the Commodity Exchange platform promoted transparency and price discovery, and that the Government supported the initiative.

iii. The Role of Government in Crop Marketing

Your Committee was informed that the main role of Government in a liberalised market environment was to put in place an enabling environment which would encourage the private sector to fully participate in agricultural marketing. This should include conducive policy and legal frameworks.

The Government should also invest in public goods such as access roads and storage infrastructure, especially in rural areas. Attractive incentives should also be offered to the private sector to encourage them to participate in crop marketing, particularly in outlying areas.

iv. The Role of the Private Sector in Crop Marketing

Your Committee was informed that, in a liberalised economy, crop marketing was a key activity of the private sector. In Zambia, with the consistent trade liberalisation policies pursued by the Government during the early nineties, the sector experienced a significant development of local and international private traders, operating in rural areas and across borders.

It was argued, however, that evidence showed that trading uncertainties, such as export restrictions, had caused most of these firms to eventually leave Zambia, often after incurring trading losses due to depressed market prices and lack of export opportunities. Some witnesses were concerned about the lack of capacity by the private sector with regard to crop marketing.

Others were of the view that the private sector had the capacity but was not fully engaged due to disincentives such as high trading risks posed by Government interventions. Inter-seasonal storage can be profitable and could be done by large private firms once they have confidence in the market. To achieve that, market uncertainties must be reduced and major trade barriers such as export restrictions and import subsidies have to be removed.

It was explained that recently, substantial commodity marketing had taken place through Zambia Agricultural Commodities Exchange (ZAMACE) and that this needed to be supported and strengthened. The volume of trade through the exchange had significantly increased since its establishment in 2007. This has provided valuable market information on trade and prices. ZAMACE provides FRA with the opportunity to ensure a strategic grain reserve in the form of call options, which has several advantages over holding physical stocks.

Your Committee was informed that this platform has already provided an efficient procurement avenue for organisations such as the World Food Programme. Such procurement mechanisms provide FRA with the opportunity to nurture private sector development without increasing, or even lowering Zambia's vulnerability to price and production shocks.

v. The Role of the Food Reserve Agency in Crop Marketing

Your Committee was informed that the Food Reserve Agency (FRA) was established to be a buyer of last resort and to maintain strategic reserves. However, the amended *Food Reserve Act, No. 20 of 2005* empowered the FRA, in addition to managing strategic food reserves, to engage in marketing and trading of designated commodities, as well as manage and lease storage facilities.

It had been noted over the years that FRA continues to have a critical role to play in grain markets, especially in buying from small scale farmers in outlying areas. It was argued that FRA should use private sector led market instruments such as call options via ZAMACE in managing the strategic grain reserves rather than being the dominant player in the market, as is the case at the moment. FRA should further target regional or international markets when selling its grain stocks rather than off-loading onto the local market, thereby depressing the prices.

Some stakeholders were concerned about the *FRA Act of 2005*, which allowed the Institution to go into grain marketing and, therefore, proposed the need for its amendment so as to take into account interests of other market players. It was argued that the FRA was just one of the many players in grain marketing which should complement the private sector and not impose interventions that had been costly at times both to the Government and the private sector.

vi. Adequacy of Crop Storage Facilities in Zambia

Your Committee was informed that crop storage facilities in Zambia are very limited. The past two years of consecutive bumper harvests have exposed the country's limited storage space. It was

estimated that about two million metric tonnes of storage capacity was needed to meet the nation's demand. The current serviceable capacity of the storage sheds of 1.3 million tonnes is inadequate to meet the needs of the Food Reserve Agency (FRA) and the private sector. Although the private sector has started investing in storage infrastructure, this investment was limited due to the uncertainty of the grain market in the country.

vii. Challenges of Crop Marketing in Zambia

The following were identified to be some of the key challenges in crop marketing in Zambia:

- a) the absence of a comprehensive agricultural marketing legal framework to guide crop marketing in Zambia; as the only legislation available is the *FRA Act of 2005* and other stand-alone Acts for specialised commodities such as cotton and tobacco; other players dealing in designated commodities remain unregulated;
- b) there was inadequate and untimely market information on the prices of agricultural products (particularly maize and other basic foodstuffs), and on the supply and demand of these products; important surveys such as the crop forecast and post-harvest surveys, were sometimes delayed or not funded at all; without necessary, timely and readily available market information, it is impossible for the key market participants to make informed decisions;
- c) there were limited mechanisms to expeditiously settle crop marketing related disputes as the legal processes were costly and extremely slow; the slow pace at which the existing systems resolved trade-related disputes and high logistical and legal costs discouraged most of the aggrieved from pursuing their disputes;
- d) there was limited awareness on the role of an agricultural commodity exchange that could trade forward contracts and ultimately futures and options. Forward contracts are important for reducing marketing risks; the commodity exchange has potential to benefit both sellers and buyers, thereby enticing them to increase their level of participation in the market;
- e) uncertainties continue to exist with regard to the role and operations of the FRA and the interface between the FRA and the private sector;
- f) the setting up of the minimum prices for maize as a way of protecting farmers against outside forces stifles the farmers' ability and initiative to search for and take advantage of opportunities presented by the market, while exposing them to unnecessary policy risks; and the Government perpetually has to deal with shouldering this burden, often translating into adverse budgetary implications;
- g) the current FRA pricing of maize does not reflect the real cost of production by small-scale farmers and this causes distortions in the maize market;
- h) Zambia has not yet operationalised the *Credit Act* which was amended in 2010 to accommodate a warehouse receipt system; the system of warehouse receipts and registered warehouses would ensure safe storage of agricultural commodities and inject operating capital into the marketing chain to the advantage of both commercial and small-scale farmers;
- i) in most rural areas, feeder road and other transport infrastructural facilities are either very poor or virtually non-existent which makes the cost of moving commodities between markets very expensive and directly hinders the development of rural markets;

- j) limited access to electricity and water constrains productivity; whereas rural electrification, when combined with access to water, could boost production and market surpluses, particularly through irrigation;
- k) shortage of grain warehouses in the country, limits the market players' ability to benefit from storing their merchandise and take advantage of better prices and other market conditions at certain times of the marketing season; whilst limited access to good storage facilities also increases storage losses; and
- l) there is limited access to credit by market participants mainly because of prohibitively high interest rates and exclusion of the rural areas from banking facilities.

PART II

FINDINGS OF THE REPORT OF THE AUDITOR-GENERAL ON THE MANAGEMENT OF MAIZE GRAIN BY THE FOOD RESERVE AGENCY

6.0 Your Committee considered the report of the Auditor-General on the management of maize grain by the Food Reserve Agency. The audit covered four provinces; namely, Southern, Central, Northern and Eastern Provinces, where a total of thirty-two storage facilities were inspected in March and April, 2009.

The objective of the audit was to assess the performance of the FRA with regard to management of maize grain stocks and to ascertain possible causes that could have led to losses and wastage of maize grain, and make appropriate recommendations for improvements.

Specifically, the audit sought to address the following:

- i. the condition of maize storage facilities;
- ii. procedures in place for inspection and staff training;
- iii. causes of poor maize quality; and
- iv. the cause of the shortage and wastage, or loss of maize grain stocks.

The major findings of the audit in respect of the management of maize grain by FRA are as set out below.

1. Conditions of storage facilities

Your Committee was informed that FRA manages six hundred and eighty nine (689) storage facilities consisting of sheds, slabs, and grain silos throughout the country, with a total capacity of approximately 2,006,800 metric tonnes.

Most of the storage facilities inspected did not fully comply with the provisions of the *FRA Act* and the Food and Agriculture Organisation (FAO) standards in the management of food reserves. Out of thirty-two storage facilities inspected, only one storage facility met the required standards while the rest were defective in terms of cracked slabs, lack of fencing, inadequate ventilation, un-plastered and unpainted walls.

2. Procedures in place for inspections and staff training

With regard to the inspections and training procedures, FRA was required to inspect storage facilities (at the beginning of each marketing season and every six months) to ensure that the facilities were in sound condition and that the surrounding environment of the warehouses are clear of weeds.

To the contrary, the audit found that storage facilities were not inspected as per requirements. In all places visited, inspection of sheds was only done before the beginning of the marketing season. All the thirty-two sites visited had dilapidated slabs and open sheds which required immediate repairs. According to the audit, there was no evidence that proper inspections of maize grain were carried out in that there was no documentation relating to independent sampling of grain stocks carried out.

Regarding staff training, the audit found that FRA has concentrated on the skills that relate to purchasing, distribution, and documentation, leaving out technical aspects of spraying and fumigating of insect development stages. The audit found that the personnel managing warehouses lacked the required technical skills to keep good quality grain.

3. Causes of poor grain quality

In order to assess the causes of poor grain quality, assessments were carried out on the efficiency of mitigation, residual spraying and mixing of maize grains in line with the business operations of FRA. According to the business of the FRA, fumigation should be done on a three months basis or when need arose. The audit found that FRA workers had no sufficient technical knowledge of both the fumigant and pests, thereby making it difficult for effective monitoring of fumigation and posing the risk of grain wastage.

Further, the audit found that infested maize was kept in the same storage facility with maize meeting the prescribed standards. This observation was common for Mpika and Kasama main depots.

4. Causes of shortage and wastage or loss of maize grain stocks

The Auditor-General's report revealed that FRA lost 115,516 X 50 kg bags in 2006/7 valued at K4,274,092,000 at Mpika main, Petauke main, Choma main, Chipata ECU and Chisamba main depots. In addition, maize grain valued at K2,290,695,000 were lost in various sheds. The audit attributed these losses and wastage to theft and lack of monitoring and lack of appropriate equipment such as platform scales and weighbridges, stacking machines and pallets, as well as lack of fences at storage facilities.

PART III

FIELD-BASED OVERSIGHT ACTIVITIES TO THE EASTERN PROVINCE AND THE BENCHMARKING TOUR TO MALAWI

7.0 Your Committee was privileged to undertake a tour to Malawi from 6th to 13th May, 2012. The choice of the country to tour was based on findings of quick research that the Malawian Government had effectively managed its policy on crop marketing. The purpose of the tour, therefore, was for your Committee to learn from that country about the policies being implemented. The tour also provided an opportunity for your Committee to benchmark with Malawi on the storage of grain.

Whilst in Malawi, your Committee paid a courtesy call on the R.t Honourable Speaker of the Malawian Parliament, Mr Chimhunthu Banda, and later engaged the Chairperson of the Committee on Agriculture for the Parliament of Malawi. Your Committee later toured the Ministry of Agriculture in Lilongwe, the Agricultural Development Marketing Corporation (ADEMARC) Limited, the National Food Reserve Agency (NFRA) and various Silos and shades in Lilongwe and Salima Districts. The findings of your Committee, in this regard, are highlighted hereunder.

- (a) Crop marketing in Malawi is liberalised. In addition, Malawi has a properly streamlined institutional arrangement concerning crop marketing. Unlike Zambia, the National Food

Reserve Agency (NFRA) of Malawi buys crops from farmers through competitive tendering. The maize bought by the NFRA is for strategic reserves while the excess is exported.

- (b) Malawi has created a separate organisation called Agricultural Development Marketing Corporation (ADEMARC) Limited dealing with input distribution and marketing.
- (c) ADEMARC has a presence in all districts and villages through unit markets. Malawi has adequate crop storage facilities such that it is able to store all the crops during bumper harvest.
- (d) ADEMARC has its own grain storage facilities and buys crops from small-scale farmers around the country. In order to increase crop yield and encourage crop diversification, the Malawian Government through ADEMARC has been providing subsidies in form of Farm Input Support Programme (FISIP) to small-scale farmers.
- (e) FISIP is a subsidy programme by the Malawian Government where farmers are provided with coupons for them to buy inputs. The coupon allows farmers to access inputs such as insecticides (chemicals), grain seeds and fertilisers. The use of coupons does not restrict farmers to buying maize grain only, but also includes other crops such as legumes.
- (f) Subsidies are targeted and members of the community identify, amongst themselves, families meeting the selection criteria.
- (g) ADEMARC and NFRA emphasises on quality control in the distribution and storage of grains. Farmers are sensitised on how to ensure quality control in the storage of maize grains.
- (h) The floor price in Malawi does not distort the market because it is arrived at by taking into account the cost of production by the small-scale farmers, which is much lower. In Zambia, however, the floor price is set by taking into account the cost of production by the commercial farmers, which is much higher, thereby distorting the market.
- (i) The Government of Malawi pays attention to quality control in storage of crops. In this regard, crops are protected from pests, both at household and national level, by ensuring appropriate methods of fumigation and appropriate storage facilities.

The benchmarking tour to Malawi was preceded by field-based oversight activities in Nyimba, Petauke, Sinda, Katete and Chipata from 2nd to 6th May, 2012. The tour provided an opportunity for your Committee to appreciate crop marketing in Zambia and the challenges facing the Food Reserve Agency (FRA) in ensuring proper storage of maize. The following were the findings of your Committee:

- (i) the FRA has purchased 8,825,408 by 50 kg bags at a total cost of K573 bn in Eastern Province, with K4 bn being the outstanding balance.
- (ii) most of the contracted warehouse managers are not reliable and employ unqualified staff; this situation was evident in Petauke, Nyimba (Mutilizi depot) and Katete;
- (iii) inadequate office requisite equipment such as office furniture and computers;
- (iv) late delivery of and poor quality empty grain bags, tents and other marketing equipments leading to high grain spillage;
- (v) delayed payment of farmers for the crop delivered to satellite depots;

- (vi) inadequate knowledge on grain marketing by warehouse managers and buyers;
- (vii) inefficient fumigators resulting into late fumigation and crops being damaged;
- (viii) interference by political and traditional leaders in the storage and marketing of maize;
- (ix) inadequate storage facilities;
- (x) inadequate transport for field visits; and
- (xi) poor road infrastructure.

PART IV

COMMITTEE'S OBSERVATIONS

8.0 After an in-depth study of crop marketing in Zambia and a detailed review of the findings of the Report of the Auditor-General, which culminated into the field-based oversight activities to the Eastern Province and the benchmarking tour to Malawi, your Committee now wishes to make the observations set out hereunder.

- (a) There is lack of a comprehensive policy and legal framework to guide proper functioning of agriculture marketing.
- (b) The cost of doing business in Zambia is very high. This is partly due to poor infrastructure, high interest rates and high transport costs.
- (c) There's inadequate and untimely market information on the prices of agricultural products and on the supply and demand of these products. Your Committee notes that important surveys such as the crop forecast and post-harvest surveys are sometimes delayed or not funded at all. It is of the view that without timely and readily available market information, it is impossible for the key market participants to make informed decisions.
- (d) There are in-adequate grain storage facilities in Zambia. However, some efforts are being directed into building sheds in various places, as witnessed during the tour in Nyimba at Mutilizi and Petauke.
- (e) The infrastructure around the country is extremely poor. It is of the view that the development of infrastructure, particularly roads, is extremely important in increasing access to markets and reducing the cost of marketing.
- (f) The FRA maize floor price announced by the Government does not take into account the cost of production by small-scale farmers. This makes the price of a 50 Kg bag in Zambia more lucrative than what is obtaining in the region and, therefore, encouraging commercial farmers, both from Zambia and other countries, to sell maize to FRA. Effectively, the Government is subsidising the price of maize for the sellers in the region.
- (g) There are uncertainties surrounding the role of the Food Reserve Agency (FRA) and the interface between the FRA and the private sector.
- (h) Lending rates by commercial banks continue to be high. Further, the rural people are excluded from banking facilities. These factors have discouraged investment in the agricultural sector. Furthermore, your Committee observes that insurance companies were not keen to provide insurance services to the sector because of perceived high risks.

- (i) The warehouse system has not been put in place since the Enactment of the Credit Act. A proper system of warehouse receipts and registered warehouses will ensure safe storage for agriculture commodities and inject operating capital into the marketing chain to the advantage of both commercial and small scale farmers.
- (j) The audit work undertaken by the Auditor-General in relation to the management of maize grain by the FRA is commendable. It is concerned, however, about the failure by the FRA to meet the expectations of the study in relation to: the condition of maize storage facilities; procedures in place for inspection and staff training; causes of poor maize quality; and the cause of the shortage and wastage or loss of maize grain stocks.

COMMITTEE'S RECOMMENDATIONS

9.0 In view of the above observations, your Committee wishes to make recommendations as set out hereunder.

- (a) A comprehensive legal framework, to be called Agricultural Marketing Act, should be submitted for enactment by Parliament as a matter of urgency. The Act should provide for the establishment of the Agricultural Marketing Council as a statutory body to advise Government on market related issues, to monitor and analyse the performance of the agricultural market, and to investigate and advise on all statutory interventions in the market.
- (b) The Government should explore various ways of reducing the cost of doing business in Zambia.
- (c) The crop forecast and post-harvest surveys should be timely and adequately funded to ensure that the results of the surveys are ready in time. In addition, the Ministry of Agriculture should harmonise the various market information systems and also conduct market research.
- (d) The Government of Zambia should embark on a robust construction of the sheds and upgrade the slabs which are under construction throughout the country into sheds. It also recommends that existing silos countrywide should be renovated.
- (e) The Government should prioritise the upgrading of trunk and feeder roads, especially in areas of high agricultural production potential. In addition, the railway system needs to be made more efficient and secure, and even extended to the most productive areas.
- (f) In order to prevent confusion, a separate buying organisation away from the FRA should be put in place. This will require the *FRA Act* to be repealed so as to allow it to purchase maize at competitive bidding from the market for strategic reasons.
- (g) Functions of the FRA should be streamlined by maintaining its original responsibility of keeping strategic reserves.
- (h) The banking and insurance companies should be encouraged to become more involved in the development of the agricultural markets by reducing the interest rates to acceptable levels, setting financial institutions in rural areas and to create new instruments with which to finance agriculture.
- (i) The Government should operationalise the warehouse receipt system as provided for in the *Credit Act of 2009*.
- (j) FRA should store the maize in good conditions of storage facilities. Further, FRA should carry out regular inspections of the storage facilities and ensure continuous sampling of the

stored maize grain so as to maintain grain quality. FRA should also make moisture meters available at all sites and to maintain inspection reports at all sheds for future reference.

Further, before fumigation is carried out, FRA should undertake an assessment on whether there is an immediate requirement for pest control. Staff should also be provided with knowledge on fumigation in order to carry out effective checks after the subcontracted fumigators have done their work. Lastly, your Committee recommends that FRA should strengthen internal control systems, improve the security at storage facilities according to the prescribed standards and ensure that appropriate weighing and stacking equipment is in place to ensure that maize is correctly weighed and stacked.

PART V

CONCLUSION

10.0 Your Committee wishes to pay tribute to all stakeholders who appeared before it and tendered both oral and written submissions. It also wishes to thank you, Mr Speaker, for affording it the opportunity to serve on the Committee for the year 2012. Your Committee also appreciates the services rendered by the office of the Clerk of the National Assembly. Your Committee is very hopeful that the observations and recommendations contained in this Report will go a long way in improving crop marketing in Zambia.

June 2012
LUSAKA

Mr R Muntanga, MP
CHAIRPERSON