

Markets in Malawi and Zambia: Hinderling soya bean growth?

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In Malawi and Zambia, soya bean production has grown significantly over the past decade, driven primarily by the rising middle-class population in both countries consuming more chicken. Production in Zambia grew from 55 000 tons in 2007 to 350 000 tons in 2017, while production in Malawi grew from 40 000 tons in 2005 to 132 417 tons in 2016/17.

Malawi and Zambia are the only two countries within the Southern African Development Community (SADC) region that consistently produce surpluses of both soya bean and soya cake. This signifies the possibility of greater international and regional trade, particularly given that South Africa faces a production deficit in meeting its domestic demand for soya bean and soya cake.

However, a number of bottlenecks in Malawi and Zambia are preventing greater regional soya bean linkages, including the low production efficiency of smallholder producers, lack of structured markets, logistics constraints and limited access to finance. A key constraint to the soya bean trade is the absence of market information.

The market information landscape

Robust market information is essential for farmers to plan their production for the upcoming season. Smallholders in particular benefit as this lessens opportunities for unfair pricing from traders. Accurate market information assists traders in knowing the quantities available for export and

import, and assists policymakers in making appropriate agricultural policy decisions to ensure food security and economic growth.

Structured market systems provide an important investment incentive for processors and input suppliers, and are generally a crucial component in the development of cost-effective value chains.

South Africa boasts a mature market information system, underpinned by the *Marketing of Agricultural Products Act, 1996* (Act 47 of 1996), comprised of a handful of key independent institutions, including the South African Grain Information Service (Sagis), which provides information on production, imports, exports and consumption, the Crop Estimates Committee (CEC), the South African Futures Exchange, and the Bureau for Food and Agricultural Policy (BFAP), all collaborating to provide public market information.

The system is robust enough to detect faulty statistics, given the multiple sources of information. More importantly, the absence of government intervention in the markets ensures the smooth functioning of the system.

In Zambia and Malawi, the landscape is decidedly different, as oilseed value chain players face difficulties in both access to and accuracy of market information. State marketing agencies also have a heavy hand in these industries.

Largely ineffective system

While commercial farmers and large traders and processors in Zambia and Malawi can access the best available market information from private services such as Commodity Insight Africa, smallholders are at a disadvantage because they do not have information to

make informed decisions on what to plant and when and where to sell their products.

In a country such as Malawi, where smallholders comprise over 90% of soya bean producers, this renders the market system largely ineffective. In Zambia, the number of smallholders engaged in soya bean production is growing and will soon comprise 50% of total production.

Even for commercial farmers who have better access to information, private services still rely on questionable in-country data collection that often comes from anecdotal/informal accounts, demonstrating the need for more structured data collection. The large number of smallholder producers compound accuracy issues, as smallholders often hold on to stocks that are not recorded and engage in high levels of informal cross-border trade, which is very poorly understood and documented in Malawi and Zambia.

These dynamics are complicated by government involvement in the market through periodic soya bean export restrictions. In addition, price volatility stemming from the purchasing and selling of maize by the government impacts the soya bean price, as well as the productive capacities of many soya bean farmers who rely on maize as a primary source of income.

More accurate market information will ultimately lead to increased predictability and lessen the need for government intervention in the markets for food security purposes, due to greater knowledge of current and predicted stocks. This will improve the ability of government and industry to plan how much soya bean might be needed for domestic processing and enact quotas rather than

full export bans, which ultimately collapse smallholder prices.

Improve market information

Zambia and Malawi have made progress in establishing better organised soya bean markets. However, these efforts still face several structural and political challenges. In Zambia, industry and government currently have a 'stocks monitoring committee' for grain and oilseeds, where stakeholders in the value chain report their stocks, which is captured in a report.

Nevertheless, stocks are not checked consistently, and it is generally agreed that there is an approximate 30% margin of error in reported stocks. While general estimates can be somewhat useful for policymakers, industry players such as input suppliers, farmers, traders and processors need accurate information to make informed business decisions. There is a need for a more precise and independent mechanism to curate accurate information, such as the multi-institutional system in South Africa.

Although the development of such systems has been discussed in industry, donor and government circles throughout Southern Africa for years, the Southern Africa Trade and Investment Hub (SATIH), funded by USAID, is now engaged in a potentially promising project.

In Zambia, SATIH is in the process of developing 'ZAGIS', based on the Sagis model in South Africa. SATIH has been meeting with industry stakeholders to support this idea and identify some of the challenges, with the aim of pitching a polished proposal to government. At this stage, a number of potential challenges remain.

Influence of a united industry

At the forefront is the need for a real champion for this initiative, which cannot survive with the primary drive coming from an external funder. While most stakeholders are in favour of ZAGIS in theory, it will require a solidified effort from all industry stakeholders to demonstrate its benefits to government stakeholders. This is complicated by the fact that withholding information can sometimes be beneficial to farmers and companies in the short term, and the lack of trust between the public and private sector.

Also critical to the effective functioning

of ZAGIS is the passing of the Marketing Act, which has been sitting in parliament in Zambia for an extended period of time. Without a legal framework mandating and regulating the provision of information, ZAGIS cannot be viable.

Initial interest from government in ZAGIS as well as recent pledges to deregulate the maize markets are perhaps positive signs, but it remains to be seen whether there will be follow-through. Agriculture is very important to the Zambian economy, so a united industry can have a big influence.

A key constraint to the soya bean trade is the absence of market information.

In Malawi, there is interest in a similar system, though at a less advanced stage. From a technical perspective, the collection of information from farmers will be much more difficult in Malawi given their small size and fragmentation. Farmers' associations such as the National Smallholder Farmers' Association of Malawi (NASFAM) have a critical role in monitoring smallholder crops in order to collect accurate information.

Overcoming capacity constraints

However, they face serious capacity constraints. Securing buy-in for the initiative will be difficult given fewer large industry players (both commercial farmers and multinational processors) with the ability to exercise influence. Nonetheless, there is demonstrated interest among private actors.

Given these circumstances, some of the traders and medium-sized processors in Malawi need to come together to exert pressure on the authorities to generate an appropriate legal framework for the sector. Greater initial donor support will be a necessary reality to get this initiative off the ground given the smaller industry in Malawi.

Both countries have established commodities exchanges that trade soya bean. In Zambia, the Zambia Commodity Exchange (ZAMACE) was established in

2007, but only recently began to gain momentum and buy-in from traders and processors with the implementation of the Agricultural Credits Act.

In Malawi, there are the Auction Holdings Commodities Exchange (AHCX) and the Agricultural Commodity Exchange for Africa (ACE), the latter of which is one of the more effective exchanges in the region in terms of live trades, but still receiving significant volumes from donors.

These exchanges have the potential to greatly improve certainty for market players through the option of futures trades, yet their effectiveness rests squarely on the tackling of the market information challenges mentioned earlier.

Benefit from collaboration

Overall, in both Zambia and Malawi there should be a focus on the improvement of crop estimates where there may be gaps in obtaining information from smallholder farmers. This means that it is important to work closely with institutions that monitor informal trade such as Famine Early Warning Systems Network (FEWS Net).

In terms of improving access to information, the Zambia National Farmers' Union disseminates information to farmers via SMS in Zambia. However, this information does not reach farmers who are not part of the union, and better government dissemination is therefore needed.

In Malawi, the nascent commodities exchange, Agricultural Commodity Exchange for Africa (ACE), provides price information. However, the uptake and effective utilisation of this information in both countries are unclear, and there has not been extensive evaluation of these programmes, which should be prioritised.

Alongside continuous efforts to improve efficiency and yields, it is important that market information initiatives are not neglected and receive unified support from industry, donors and government. South African industry players will benefit from continued collaboration with these efforts, in order to facilitate regional linkages and ultimately help to address under-capacity at their own soya bean processing plants. 🌱

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