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Repoa Brief

# National Food Reserve Agency (NFRA) Not for Smallholder Farmers

By Lucas Katera and Donald Mmari

## Key messages

- While NFRA does not set minimum quantity requirements of grains to be sold in that market, small holder farmers with small quantities are considered that they increase administrative costs at the selling points, hence indirectly discouraged.
- Quality standards set by the NFRA are very complicated to be understood by a common farmer, making it difficult for smallholder farmers to access that market.
- Selling points are located in urban centers, usually far from villages where gains are grown, making it expensive for farmers whose harvests are small.
- Timely payment seems a very pulling factor for smallholder farmers to decide on which market to sell their outputs.

## Introduction

Poverty level remains quite high in the country, more so in rural than urban areas. As the Household Budget Survey of 2012 shows, while 10% and 28% of Tanzanians are below food and basic needs poverty lines respectively, the corresponding figures for rural areas are 11% and 33% respectively (URT, 2014). Marketing problems for small-holder farmers, including certain government interventions, their poor organization, and poor value chain development have been identified as among major bottlenecks to farm household incomes. National Food Reserve Agency (NFRA) could potentially provide part of the solution to these problems through its role as an agency for ensuring food security, and through its role as a price stabilizer to increase farmers' income if they buy at relatively higher than market prices that prevail at harvest. The later role is even more important as many farmers tend to sell their outputs immediately after harvest for immediate cash needs for a variety of needs.

However, that market has not been accessible by smallholder farmers because of associated difficult conditions as discussed in detail later in this brief.

But also, farmers themselves prefer private buyers to NFRA, even though they admit that the later offers better prices.
This briefing paper aims at finding out why this is the case. This is done using results of the survey conducted by REPOA with the support from Embassy of Ireland in Dar es Salaam. The survey was conducted in two districts of Iringa and Chamwino in Iringa and Dodoma regions respectively.

### About NFRA

The National Food Reserve Agency of Tanzania (NFRA) was formed following the Agriculture Policy of 2008. Under this policy, the Strategic Grain Reserve (SGR) was transformed into NFRA, tasked with two main mandates; first to maintain a national optimal level of food reserve to address local food shortage, to respond to immediate emergency food requirements, while managing the agency in a business manner; second, to stabilize and regulate the price of grains. Since main producers of grains are small scale farmers, it was expected that activities of the NFRA will significantly benefit small-scale farmers by providing them with a more reliable market of their food produce.

## Findings

### Quantity demands of the NRFA a challenge to smallholder farmers

In principle, there is no minimum quantity requirements to sell to the NFRA. This means that any farmer with whatever amounts can sell to the NFRA. However, in practice, small amounts of up to two bags of 100kg are perceived by NFRA officials to have higher administrative costs, hence, they are indirectly discouraged. One of the indirect measures used to discourage small amounts is the delay in assessment of the consignments brought by smallholder farmers. As some previous studies also suggest, we find apparent preferential treatment of the powerful, while small-holder maize farmers and traders must wait long for assessment and thereafter for several weeks before getting paid after delivering their commodities at the collection points. From the NFRA perspectives, all these are meant to reduce the possible losses due to poor quality but also administrative costs resulting from multitude transactions of small quantities.

### Quality demands of the NRFA very complicated to be understood

To sell to NFRA, a seller must meet quality standards that have been set by the agency. Table 1 summarizes some of the quality demands by the NFRA.

***Table 1: NFRA quality requirements***

| ***Parameter*** | ***NFRA requirements*** |
|---|---|
| Moisture Content | < 13% |
| Foreign Matter | <0.5% |
| Broken Grains | < 2% |
| Pest Damaged Grains | < 1% |
| Rotten and Diseased Grains | < 2% |
| Immature and Shriveled Grains | < 1% |
| Other Colored Grains | < 0.5% |
| Aflatoxin | ----- |

Source: NFRA, 2012

NFRA requires that the grains have to meet certain necessary minimum standards. A big challenge for smallholder farmers is to understand the contents of the standards by themselves. Moreover, measuring these require that farmers have measuring equipment, which may be difficult and expensive to buy and maintain. In addition, such gadgets may require electricity for them to work, which is available among very few rural farmers. Even when farmers have such gadgets, most of them are not able to read and interpret data generated from such gadgets. The whole process of quality standard has been complicated by the fact that in some cases, NFRA had to deduct two kilograms per bag of maize brought there for sale. This is done intentionally to make sure that any loss resulting from lower quality of grain is not transferred to NFRA from sellers. All these measures on the quality standards have been discouraging small scale farmers to sell to NFRA.

### Location of selling points in urban centers

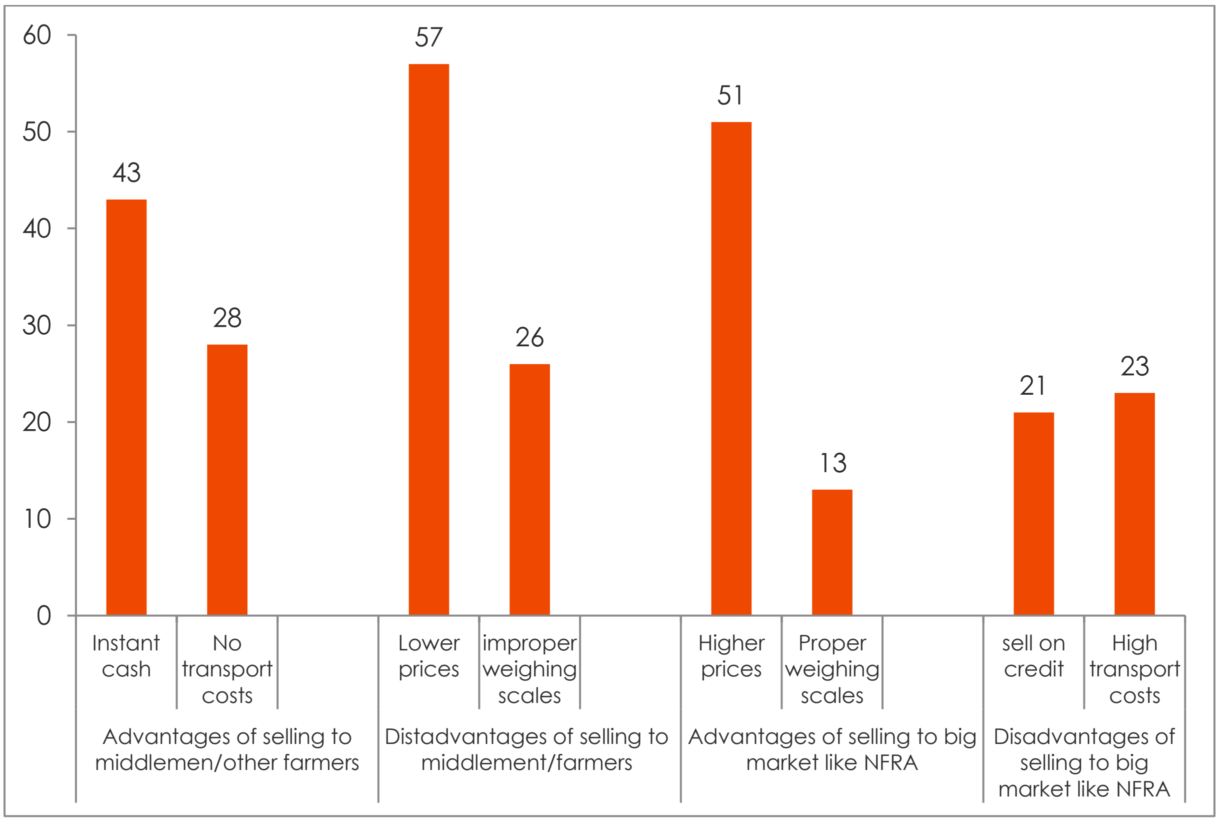
NFRA markets are located mainly in urban centers in which, farmers find it difficult to access. Small scale farmers often live in isolated locations and therefore having poor access to transport and market information limits their access to collection points. In addition, smallholder farmers generally produce crops mainly for their own consumption and the surplus is often little. Depending on yields, the little surplus is used to cover cash needs for other uses. Smallholder farmers are very fragmented, making it difficult to mobilize and transport grains from their locations to the selling points at scale that would help to reduce unit haulage and transaction costs. Therefore, it is middlemen and traders who collect small amounts from many farmers and mobilize transport to the selling points, taking advantages of economies of scales. The fragmentation of smallholder farmers also weakens their bargaining position. Traders and middlemen thus easily dictate prices they pay for grains from smallholder farmers, limiting their potential benefit from the market option offered by NFRA. This is in addition to the fact that, NFRA has limitation in financial capacity as a result of small budget allocation relative to the needs of the market.

### Deferred payments a bottleneck to smallholder farmers

As other studies have shown for developing countries, whether small scale farmers are net buyers (buy more than what they sell) or net sellers (sell more than what they buy), they tend to sell most of their grains immediately after harvesting A number of reasons explain why farmers are forced to sell their grains immediately after harvesting, including poor storage facilities, immediate cash needs to cover necessary expenses including loans for farming activities and households' social needs. This is the time when market prices are often relatively very low, particularly so during bumper harvests. Note that immediately after harvesting farmers have high needs for cash income. Again, both net buyers and net sellers will buy grains for their household consumption during lean season. This is the time when market prices increase compared to harvest time, but farmers have relatively lower income. They, therefore, need to be integrated in a marketing system which will offer them relatively better prices during harvest, and relatively lower prices during the lean season when compared with the private market. Thus, the marketing system in which NFRA is a key player, is important to smallholder farmers and should have played a more beneficial role. However, the majority of farmers sold to middlemen and big traders who came and collected grains from respective villages due to a variety of reasons, some of them already pointed out.

Figure 1 below summarizes advantages and disadvantages of selling to private buyers and the NFRA.

***Figure 1: Advantages and disadvantages of selling maize to different markets***




Source: REPOA, Agriculture Policy Research Household questionnaire, 2016

Figure 1 shows that majority of farmers cite higher prices and proper weighing scales as advantages of selling to NFRA than to private buyers. However, instant cash and lower transport costs are having higher comparative advantage to private buyers than NFRA. This means that, regardless of the amount small scale farmers can fetch, if they have to wait longer before they are paid, they would prefer cash upfront even if it means smaller amount. Selling on credit and location of market away from farmers has been the most hindrance factor for small holder farmers to access NFRA market, despite better prices it offers.

## Conclusion and policy recommendations

The survey has established that farmers have clear understanding that NFRA offers the best prices during harvest than private buyers but prefer selling to the private buyers. Cash up-front and lower transport costs have been identified as the main factors that drive small farmers to opt for private buyers.

But also issues of quality standard and NFRA preference to larger sellers or aggregated purchase to avoid transaction costs are other factors pushing farmers to private buyers.

For smallholder farmers to benefit from NFRA market, it is recommended that NFRA is given sufficient cash budget to be able to pay farmers up-front. Within the same context, establishing small warehouses located in villages, equipped with necessary gadgets for quality measurements would enable collection and assessment to be made closer to farmers and hence provide them with easy access. This may require a bit more work on policy and institutional innovations to coordinate fragmented smallholder farmers through collective vehicles such as producer associations or cooperatives for them to benefit from information, economies of scale, and more secured food position.

**REPOA**
157 Mgombani/REPOA Street, Regent Estate,
P.O. Box 33223, Dar es Salaam, Tanzania
Tel: +255 22 2700083 Cell: +255 75 409 1677 Fax +255 22 2705738
Website: www.repoa.or.tz Email: repoa@repoa.or.tz

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