**Effects of Stock holding policy on Maize Prices: Evidence from Zambia**

**Yujun Zhou, Kathy Baylis**

**Abstract:** Public stockholding is prevalent among developing countries in recent decades. Governments intervene in grain markets directly by building strategic reserves through marketing boards. Despite the massive spending on stockholding programs, little is known about their effectiveness in mitigating the retail price swings associated with domestic production shocks. This paper estimates the effects of the purchase and sales activities of the Food Reserve Agency (FRA) on maize market prices across more than thirty markets in Zambia using monthly price data from 2003 to 2008. To deal with the endogeneity in the actual purchase and sales targets, we use predicted FRA purchase and sales targets as instrumental variables. Controlling for other policies in place, we find evidence of stabilizing effects of FRA activities on retail prices in the major district markets. Results also show that FRA purchases raise local prices for surplus maize producers for about 3% on average during the time of harvest and FRA sales help to lower the price during the lean season from 1%-7%.

**JEL classifications: Q11, Q18**

**Keywords:** Maize marketing board; Strategic grain reserve; Maize prices; Zambia

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1. **Introduction**

Public stockholding is widely used in developing countries to stabilize staple food prices. In Africa, stockholding has become increasingly popular among governments over the past decade, and government marketing boards have become major players in African food markets (Jayne, 2012).

Volatile food prices endanger the food security of households and can lead to social unrest and civil conflict (Bellemare 2015; Fjelde 2014). Numerous theoretical works have demonstrated the role of public storage to reduce fluctuations in food prices (Scheinkman and Schechtman (1983); Wright and Williams (1982), among others). Gouel and Jean (2012) propose a theoretically optimal policy for stabilization food prices in a developing country by maintaining a public stock along with a subsidy on agricultural production. This is precisely the policy combination used in Zambia with its sizeable public stock and subsidies on farm input.

Equipped with ample storage facilities in various district markets, the Food Reserve Agency (FRA) in Zambia purchases a substantial amount of maize from small households in various geographic regions since the 2003/04 marketing year (corresponding to the study period of this paper). The high pan-territorial buying price makes the FRA the dominant buyer in the market (Mason and Myers 2013). In 2006 and 2007, the FRA bought more than half of the surplus maize by smallholder farmers (Ricker-Gilbert et al. 2013). As a result, the national maize stocks reached historically high levels in 2009. These buffer stocks are intended to reduce variability in grain prices and to provide liquidity in the maize market (Govereh, Jayne, and Chapoto 2008). Mason and Myers (2013) show the FRA purchases raised mean price raised around 17% between 2003 to 2008 and show signs of a stabilizing effect. The authors point out that the welfare gains for the poor households from this policy seem rather small compared to the considerable financial cost to build and maintain the buffer stock. To support the high FRA purchase price, along with storage and logistics costs, the estimated total cost of FRA activities consists of 7% of the entire government budget in Zambia (Nkonde et al. 2011; IMF, 2012).

This paper seeks to provide empirical evidence on whether the stockholding policy was effective in stabilizing prices. Specifically, we ask: can FRA purchases increase the price that farmers receive during the time of harvest? Can FRA sales mitigate the retail price swings associated with domestic production shocks during the lean season?

Despite its popularity among governments, evidence on the effectiveness of stockholding policy on stabilizing prices is relatively scarce and inconsistent. Jayne et al. (2008) find the National Cereals and Produce Board (NCPB) in Kenya increases maize price by 20% between 1995-2004 but decreases price during the early 1990s. Pierre et al. (2018) do not find a significant effect of the National Food Reserve Agency in Tanzania on maizes prices except for a small decrease effect in some markets. Despite the similarities in the policy between countries, the FRA in Zambia operates on a larger scale both financially and geographically and has a focus on smallholder farmers. The studies on the Zambia case are, therefore, more relevant. Chapoto and Jayne (2009) find evidence of FRA sales reducing market prices but no significant results on stabilizing effects. Similar to our study, they estimate a reduced form model on three wholesale markets and regard FRA activities as demand and supply shifters. Mason and Myers (2013) apply a Vector Autoregression based approach to analyze price dynamics in Lusaka and Choma. Simulation results from their model suggest a stabilizing effect on the prices and approximately 20% increase in prices between 2003-2008.

This paper makes several contributions to previous studies on stockholding policies and FRA in Zambia. Different from the time series analysis commonly applied in the previous literature, our approach explores the spatial variation across thirty-two district markets that vary in geography and economic status. The purchases and sales are made locally, and naturally, we would expect the effect of the program to vary over space as well. We use instrumental variables to deal with endogeneity in the quantity of FRA bought and sold to prevent biased estimates.

The endogeneity issue of identifying the effects of the stockholding policy on maize prices is three-fold. First, since the FRA targets explicitly areas that are predicted to be in the surplus as locations for their purchases, we need to control for endogeneity in the amount of FRA purchases. Otherwise, we tend to overestimate the stabilizing effect because these purchases are typically made in places of surplus maize and price there tend to be more stable. Second, a reverse causality issue exists as FRA tends to sell more maize when the price is higher. This drives the estimated effect of FRA sales to increase the price if not no effects at all. To tackles with these two issues, we use predicted FRA purchase and sales targets as instrumental variables for the actual purchases and sales as they are relevant to the stockholding activities but not directly correlated with production shocks or grain prices of that year. Third, simultaneous policies are at play, and all to a certain degree endogenous to local grain production, total maize supply, and maize prices. These policies include but not limited to temporary export bans, government subsided imported maize from South Africa and targeted fertilizer subsidy program for smallholder farmers. Without controlling for other policies, we are facing the risk of attributing the stabilizing effect only on the FRA stockholding policies, but it may be a combined effect of multiple policies. However, most of the policies listed above are made at an annual level. We try to proxy them by adding agriculture-related weather shocks in each regression or only explore monthly variations in price.

Identifying and quantifying the effects of stockholding policy matter to policy makers aiming at improving food security. Understanding both the benefits and costs involved in carrying out the stockholding policies can help evaluate policy alternatives in stabilizing the grain market.

The paper is structured as follows. Section 2 gives background information on the Zambia maize market and relevant policies. Section 3 illustrates the empirical strategy by describing the model. Section 4 includes a description of data and a discussion of the empirical results. Section 5 concludes with the main findings of the paper and the relevant policy implications.

1. **Background**

Zambia ranks 139 out of 188 countries in the 2015 UNDP Human Development Report and is classified as a lower middle-income country by the World Bank (Cammelbeeck 2015). With sixty percent of its population below the poverty line and almost fifty percent malnourished, the country suffers from widespread poverty and food insecurity (Sitko et al. 2011).

The agricultural sector in the country comprises of roughly 1.5 million smallholders and 2,000 large-scale farmers. More than ninety percent of maize productions and eighty percent of total maize sales come from smallholder farms (Tembo et al. 2009). Maize production is not evenly distributed across farms. Around two percent of the small and medium farmers generate roughly half of maize output. A large number of small farm households are still net buyers of maize (Sitko et al. 2011). The dependence on the volatile rainfall and a lack of irrigation systems make the agricultural output extremely unstable. Years of drought, flood, and insufficient input supply, which represent on average one year out of three, lead to deficient maize production to satisfy food demand at the national level (Dorosh, Dradri, and Haggblade 2009). Since weather shocks are localized, specific production regions experience more severe shocks than others. Substantial production shortages result in the domestic maize price rising to the Republic of South Africa’s maize import parity (Myers and Jayne 2012).

However, past maize price fluctuations and the consequent social unrest have led the government of Zambia to believe food prices are far too strategically and politically important to leave to the market (Chapoto 2012). The government mistrusts private traders in their ability to bring in enough maize to stabilize the market (Myers and Jayne 2012). Uncertainties in imports and the transmission of shocks from other countries make trade a less reliable tool to address domestic food shortage. Besides, storage is needed to supply the market before the imports arrive. Consequently, grain storage has become a preferred option than dependence on international trade to secure domestic food security (Dorosh 2009).

The Food Reserve Agency (FRA) was established in 1996 with the aim of building and managing national grain stocks (Govereh, Jayne, and Chapoto 2008). The FRA started by purchasing small quantities in only eight districts out of a total of 72 districts. On May 2003, the agency expanded the purchase to 37 districts and at a pan-territorial price for the first time (Mason, Jayne and Myers, 2015). During the marketing year 2006/07, the FRA buy price was set at 38,000 ZMK (for a 50-kg bag), which was a lot higher than the average wholesale price of 23,000–31,000 ZMK (Mason and Myers, 2013). According to the estimates in Mason, Jayne, and Myers (2015), more than half of the smallholder maize was sold to the FRA for five consecutive years since the 2002/03 marketing year.

The purchased maize is stored in more than 400 facilities all over the country and maintained by the FRA. The buffer stocks are intended to stabilize maize price and provide available maize supply to the market. In part to protect the dominant market position of the FRA, the government implemented a series of policies including export bans, import tariffs, and imports through the FRA (Tschirley and Jayne 2010). Most of the stored maize are sold to large industrial processors and trading companies that cooperate with the FRA through a tender process, often at below-market prices (Mason and Myers, 2013).

1. **Method**

To help explain how FRA purchases and sales affect retail maize prices, we set up the following model of demand and supply of maize in Zambia. Consider a system of demand and supply of maize as specified in equation (1) and (2):

Where is the supply of maize at district at time t, is the amount of net imports of maize at time t, and is the price of inputs and weather at district in the previous period respectively and is the farm gate price of maize in the previous year; is the demand for maize, affected by the current price of maize, the income of consumers and possible restrictions on export in place.

FRA activities are essentially smoothing price both over time and over space. Most of the FRA purchases are made during the harvest season between July to October from smallholdings in maize growing areas, then stored in the storage facilities in the major districts. Most of the sales are made doing December to March, at a subsidized price to commercial millers in cooperation with the FRA (Mason and Myers, 2013). This makes the distance to the districts that have milling companies in cooperation with the FRA an important factor as to influence of the sales.

Equation (3) and (4) are factors associated with FRA sales and FRA purchase:

where is the distance weighted FRA sales of market at time t for its nearest miller, and is the price at the nearby miller location at time t. is the cost of transportation. The FRA purchase can be modeled as a function of past grain stocks and estimated current excess harvest or total storage target. is the pan-territorial FRA buying price set for the year.

Consider retail maize price as a function of total supply and demand of maize on the market, where FRA purchases affect demand and FRA sales affect supply, as is shown in equation (5). Without the FRA, we would expect prices to go up by the cost of storage throughout the year, and through arbitrage, the price in the main districts would be close to the price of South African maize plus transport price. The FRA purchase price is set once every year and stays the same in the entire crop year (May to April). The price is pan-territorial, meaning the price is the same for all districts in the country.

Solving a structural model consisted of a system of equation (3), (4) and (5) is difficult both theoretically and empirically. The reduced form can come in different forms resulting from different assumptions on the structural model. We do not observe the quantity of maize bought and sold as broadly or frequently as we observe the prices in available data. Given the data limitation, we follow the approach used in Chapoto and Jayne (2009) to start with a reduced form framework with demand and supply shifters as regressors subject to the availability of data.

Because we do not have a very accurate estimate of production quantity either at the national or local level, we apply a vector of weather measures in the previous growing season as proxies of production shocks to the maize harvested by smaller holder farmers. Note that the primary district markets are in a certain degree connected through trade. As a result, the prices of these markets tend to drive towards the same driven by arbitrage. One would argue that the aggregated shocks at the national level matter more than local weather shocks because the arbitrage behavior would even out the shocks between markets. However, due to the incomplete infrastructure and a lack of market information system, the level of price integration in developing countries is not so much. Prices in markets far away from the primary production and consumer centers respond little to each other in the short term (see appendix on analysis on price integration) to prices shocks outside. We use local market weather as controls in the main specification and use weather shocks in the production region and aggregate national shocks as part of the robustness checks. By adding in the market fixed effect and month fixed effect in the model, we can compare regions that are less affected by FRA purchases and sales as controls (both unaffected by price arbitrage or by the FRA purchases) to reflect the effect of stockholding policy.

With all these factors considered, we can estimate a reduced form model (equation 6) to evaluate the effects of FRA purchase and FRA sales on price levels and price stability:

where Yit is price and price deviations at district i at time t, and are the quantity bought and sold by the FRA (usually they do not occur at the same time), is a vector of weather variables from the previous growing season, is a vector of other covariates of demand and supply shifters, and is a random error term. The coefficient of interest throughout the paper is , the effect of FRA purchase on the prices and for the effects of FRA sales. The price deviations variable is generated by the squared term of the deviation from the long-term average price of each district. We employ district fixed effects models to control for unobserved time-invariant factors that might affect food production and food prices such as the geographical location and climate associated with it. We control for seasonal effects by adding month dummies in the model.

The potential problem with the above regression is the amount of current FRA purchase, and FRA sales are endogenous to current prices . As is discussed earlier, the OLS estimator of the coefficient of FRA purchase would be overestimating since the purchases are typically made in places of surplus maize and price tend to be more stable. Similarly, the estimated coefficient on FRA sales would be the opposite of what we expect them to be, if not attenuated to zero, without considering the endogeneity contained in the sales.

Inspired by the policy design, we come up with instrumental variables for actual purchases and sales by using predicted purchase and sales targets from the Crop Forecast Survey (CFS). Every year (except for the 2010/2011 marketing year), the Central Statistics Office of Zambia surveys during in the spring before harvest, to get an estimate of the local production for the major districts. The CFS collects a nationally representative sample to get an estimate of national harvest and are used as references for setting goals for FRA purchases quantity and FRA purchase price. By analyzing the CFS data, we get an estimate of the harvest before the actual harvest for each year.

We use an instrument for FRA purchases by using the interaction term of long-run shares of production for each district and the expected total crop harvest to capture the annual purchase targets. The share is calculated as the average share of production in a specific district as a percentage of national harvest from 1999 to 2011. We believe this instrument to be valid because the policy design makes the estimated production relevant to FRA purchase behaviors, but not the instrument does not affect prices in a particular year directly. Since we are interacting the production with long-run averages shares, the instrument is not strongly correlated to a specific year’s harvest and hence not impacting the current local supply of maize directly. Also, the CFS estimate may not be entirely accurate in terms of actual harvest and hence not strongly correlated with the current prices.

We instrument for distance-weighted FRA sales at a district by using predicted FRA stock, weighted by the number of millers in each district and by the distance to the nearby districts with millers. The validity of this instrument lies in that the estimated FRA stock is dependent on long term shares and are not strongly associated with shocks to food prices in a particular year. Distance to districts with milling companies are also relatively exogenous and tend to stay the same during the 5-year study period.

1. **Empirical Application**

The empirical application is based on the following data. First, monthly Zambia maize prices observed from Jan. 2003 to Dec. 2008 from 32 different markets that spread out in different geolocations in Zambia (map of markets shown in Figure 1). There are considerable variations in the markets, including food demand, population, food production and cost of transportation. Price data were collected by the World Food Program and the Central Statistical Office in Zambia. We generate measures of agriculturally-relevant precipitation from the Climate Hazards Group InfraRed Precipitation with Station (CHIRPS) dataset (Funk et al., 2015). To measure the effects of weather on agriculture more accurately, we use the total amount of rainfall that fell during the October–April growing season. For the same season, we define the length of the longest dry spell as the number of continuous days with no rain. To measure the beginning of the rainy season, we calculate the number of days after October 1st in which rainfall more significant than 10 mm fell three days out of 5. These three variables are taken from the prior agricultural season to predict food availability for the June/July maize harvest. Temperature data are from the African Drought Monitor, also limited to the maize growing season. We created average temperature during the growing season, growing degree days (number of days where the temp was between 8 to 32 C) and heat days (days temperature greater than 30 C) following Deschênes and Greenstone (2007). The weather measures used in this paper are more accurate and complete compared to only using precipitation as in Dorosh (2009) and Chaopoto and Jayne (2009). We also have annual Zambia FRA purchases from 2002 to 2009 from different local district markets and monthly national aggregated FRA sales from the FRA. South African prices, net imports from South Africa from Johannesburg Stock Exchange and South African Reserve Bank. Annual production estimates are from the FAO. We got the list of commercial millers working with the FRA from CSO. Table 1 presents summary statistics of the key variables used in the analysis.

For both of the outcome variable, we estimate four specifications as follows. Model (1) is a fixed effect model, assuming exogeneity on all the regressors. Model (2) is a fixed-effects model with instrumental variables and the estimated coefficient on the variables of interest (FRA purchase and FRA sales) are obtained through two-stage least squares method (2SLS). Model (2) is our main specification and the preferred model because it controls for the endogeneity of various explanatory variables as described above. Models (3) and (4) use the same estimation method on the key variables but are using different specifications for robustness check. Model (3) includes year dummies instead of the weather variables. Model (4) explores monthly variations in the model by including the price of the same district from the previous month in the model. In this specification, most of the annual level control variables are removed by comparing prices from one month to another.

In all the instrumental variables regressions, we use the Anderson-Rubin Wald test to detect under identification of endogenous variables and use the Cragg-Donald Wald F statistic to test whether we have weak instruments. Over-identification test is not necessary since the number of instruments is the same as the number of endogenous variables.

Table 2 presents the regression results of the maize price regressions. As expected, we can see the FRA purchases increases maize price, and FRA sales decrease maize prices across four different model specifications. All the estimates are that the variables of interest are statistically significant. By comparing the OLS estimates (Model (1)) and the IV estimates (Model (2)), we can notice the sharp contrast in the scale of estimated coefficient on the FRA sales variable. When we fail to account for the endogeneity in the sales behavior, the estimated coefficients of the FRA sales variable are attenuated toward zero or even positive with a marginal effect of only -0.467. The 2SLS estimates of the marginal effect on the FRA sales on price is as large as -8.316. In other words, the FE model risks underestimating the true underlying effects of FRA sales in decrease price swings by proving liquidity to the maize market through releasing stocks and subsidizing the price that the farmers are getting. The 2SLS estimates of the marginal effect of the FRA purchase on prices are similar to the OLS estimate, and both are showing a statistically positive effect on the maize prices. To put numbers in perspective, for an averaged purchase quantity of 1000 MT at a district market, the estimated FRA purchases effect raises the mean local prices at 570 ZMK by 1%-3%. We find that, all else equal, the average amount FRA sales help to lower the mean price of maize during the lean seasons by as much as 7% in Lusaka, 3% in Kitwe and decreases towards 0 as the distance to districts with commercial millers increase. The estimated effect of the FRA sales varies across districts, as our FRA sales variable are distance-weighted. The estimates provide us with insights on the spatial difference on FRA sales to prices.

Comparing the estimation results from model (3) and model (4) with our main specification model (2), we can find that the estimates are consistent in signs and significance. Model (3) uses yearly dummies as proxy for weather variables and the estimated coefficient are slightly bigger than the ones in model (2). This shows the omitted variable of weather are positively correlated with the prices by reducing maize supply. Model (4) is essentially a price difference regression by having the lagged price in the regression and the variables measured at the annual level are removed. While the interpretation of the marginal effects of model (4) and model (2) are slightly different, the coefficient are largely consistent with our main specification, suggesting that the relationship between FRA sales and FRA purchase also exists in short term variables between months.

For the control variables, days without rain have a positive and statistically significant effect on prices as they negatively impact maize prices. Mean temperature have a negative and statistically significant effect on the maize prices, showing that when controlling for the number of heat days, higher mean temperature increases grain supplies and decreases maize prices.

Across the three different specifications with instrumental variables in Table 2, the under-identification test and weak instruments test supports the validity of the 2SLS estimates. The values of Cragg-Donald Wald F statistic are larger than 10, indicating that

we can reject the null of no correlation between the endogenous variables and the instrumental variables at 5% significance level. The Anderson canon. corr. LM statistic are larger than the critically value at 1%, indicating that we can safely reject the null hypothesis that the instrumental variables are under identifying the endogenous variables. Associated first stage results of the regressions are presented in Appendix Table A1.

Results on the price deviation variables are presented in Table 3. The model specification and variables in the model are the same as the price regressions presented in Table 2 but regressed on price deviations. We are seeing negative and statistically significant effects of FRA sales on price deviations across all three models of IV regressions, suggesting a stabilizing effect on maize price of FRA sales via releasing grain stocks during the lean season. Similar to the marginal effect estimated on the price regressions, the IV estimator are much larger in scale compared to the OLS estimates. This shows the endogeneity involved in the FRA sales and prices drives the estimate of marginal effect towards 0 and underestimates the stabilizing effect of FRA activities. This might help to explain the results in previous literature that stockholding policy have no significant impact on stabilizing the market when we would expect them to.

1. **Conclusion**

Among the wide variety of factors that affect price volatility in staple foods, this paper focuses on the effect of stockholding policy on lessen price instability. Following the previous literature on maize price and policy interventions, the model incorporates the influence of weather-induced production shocks, external market price transmission to separate the influence of the FRA activities. By controlling for the endogenity issues, the model can identify the effect of estimating the effect of FRA purchase and sales on maize price variability and maize price in Zambia.

A few interesting findings are derived from this empirical investigation. First, consistent with Chapoto & Jayne(2009) and Mason and Myers (2013), we find the

FRA activities have a signiciant impact on reducing maize prices and maize price volatity during the lean season and help to support the purchase price that the farmers are getting.

Second, this study finds that failing to control for the reverse caulity in food prices and FRA sales would lead to biased estimates of the marginal effects of FRA activities.

There are limitations to this paper. Due to data limitations, we are analyzing retail maize prices instead of wholesale or farmgate maize price. The actual effect on the prices received by smallholder farmers may be slightly lower than our estimates.

The result of this paper might be of interest to policymakers in the Southern Africa region and to developing countries that are considering public grain reserves as means to stablize the grain markets. A few things to consider: first, is the fiscal impact of building the public grain stock worth it? We are seeing signs of stabilizing grain prices and increases in the price received by smallholder farmers, but we should not ignore the opportunity cost in investing other programs such as subsiding farm inputs and develop better agricultural practices through education and extension. Second, the public stock may have a crowding out effect on the private sector as private traders have less incentive to build stocks on their own. As a result, governments would face a more prominent role on stabilizing the market and then more pressure on the budget. Third, international spillovers might be big as leaks the stabilizing effect to neighboring countries. Fourth, management and transparency matters, late payments to farmers are known to influence the effectiveness on getting more maize from the smallholder farmers.

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Table 1. Summary Statistics of Variables

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variables | Mean | SD | Min | Max |
| **Dependent variables** |  |  |  |  |
| Maize Price (ZMK/ kg) | 573.8051 | 182.0592 | 235.3799 | 1555.6 |
| Price Deviation Squared | 26094.09 | 52640.71 | 0.029471 | 674142.8 |
| **Key variables** |  |  |  |  |
| FRA Purchase (MT) | 257.4658 | 845.5297 | 0 | 10310.93 |
| FRA Sales (MT) | 5.122118 | 31.83187 | 0 | 655.8752 |
| **Explanatory variables** |  |  |  |  |
| Days without rain | 27.453 | 11.520 | 1.000 | 56.000 |
| Precipitation(mm) | 1068.551 | 197.276 | 550.444 | 1640.263 |
| Mean Temperature (°C) | 24.918 | 0.837 | 23.220 | 27.064 |
| Heat days | 3.885 | 5.457 | 0.000 | 28.000 |
| SAFEX Price (ZMK/ kg) | 789.909 | 217.037 | 468.753 | 1279.758 |
| **Instrumental variables** |  |  |  |  |
| **Production Region** |  |  |  |  |
| Predicted purchase target | 3358.519 | 15746.14 | 0 | 216272 |
| Predicted sales target | 2016.894 | 6715.656 | 0 | 86699.47 |

Table 2: IV Regression of Maize Price

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | (1) | | (2) | | (3) | (4) | |
| Price | | FE | | FE+IV | | FE+IV | FE+IV | |
| FRA Purchase | | 0.020\*\*\* | | 0.028\*\*\* | | 0.031\*\*\* | 0.019\*\*\* | |
|  | | (0.003) | | (0.009) | | (0.009) | (0.006) | |
|  | |  | |  | |  |  | |
| FRA Sales | | -0.467\*\*\* | | -8.316\*\*\* | | -7.908\*\*\* | -4.684\*\*\* | |
|  | | (0.131) | | (1.682) | | (1.491) | (1.140) | |
|  | |  | |  | |  |  | |
| Days without rain | | 1.930\* | | 2.316\*\* | |  |  | |
|  | | (0.945) | | (1.117) | |  |  | |
|  | |  | |  | |  |  | |
| Precipitation | | 0.090 | | 0.105\*\* | |  |  | |
|  | | (0.064) | | (0.051) | |  |  | |
|  | |  | |  | |  |  | |
| Mean Temperature | | -158.420\*\*\* | | -201.571\*\*\* | |  |  | |
|  | | (21.258) | | (25.669) | |  |  | |
|  | |  | |  | |  |  | |
| Heat Days | | -2.037 | | -0.843 | |  |  | |
|  | | (2.725) | | (2.362) | |  |  | |
|  | |  | |  | |  |  | |
| SAFEX Price | | -0.489\*\*\* | | -0.475\*\*\* | | -0.354\*\*\* | -0.109\*\*\* | |
|  | | (0.060) | | (0.037) | | (0.057) | (0.021) | |
|  | |  | |  | |  |  | |
| Net import | | 0.000\*\*\* | | 0.000\*\*\* | | -0.000 | -0.000 | |
|  | | (0.000) | | (0.000) | | (0.000) | (0.000) | |
| Price lag | |  | |  | |  |  | |
|  | |  | |  | |  | 0.556\*\*\* | |
|  | |  | |  | |  | (0.026) | |
| N | | 2304 | | 2304 | | 2304 | | | 2232 |
| Cluster | | 32 | | 32 | | 32 | | | 32 |
| *Anderson canon. corr. LM statistic* | | - | | 28.782 | | 33.262 | | | 25.857 |
| *Cragg-Donald Wald F statistic* | | - | | 14.251 | | 16.501 | | | 12.805 |

Notes: Standard errors in parentheses. \* *p* < 0.10, \*\* *p* < 0.05, \*\*\* *p* < 0.01. Specifications of the models: (1): FE, (2): FE-IV (using weather variables), (3) FE-IV (using year fixed effect), (4) FE-IV (difference in month prices). Cragg-Donald Wald statistic and Anderson-Canon correlation statistic are distributed as chi-squared with degrees of freedom of 1.

Table 3: IV Regression of Maize Price Deviation

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | (1) | | (2) | (3) | | (4) |
| Price Deviation | FE | | FE+IV | FE+IV | | FE+IV |
| FRA Purchase | 3.887\*\*\* | | 3.699 | 5.186\*\* | | 2.358 |
|  | (1.007) | | (2.305) | (2.119) | | (2.004) |
|  |  | |  |  | |  |
| FRA Sales | -34.658 | | -1508.327\*\*\* | -1332.108\*\*\* | | -1145.829\*\*\* |
|  | (22.429) | | (415.645) | (359.691) | | (374.575) |
|  |  | |  |  | |  |
| Days without rain | 1127.029\*\*\* | | 1181.303\*\*\* |  | |  |
|  | (215.933) | | (275.981) |  | |  |
|  |  | |  |  | |  |
| Precipitation | 38.478\*\* | | 41.040\*\*\* |  | |  |
|  | (11.794) | | (12.565) |  | |  |
|  |  | |  |  | |  |
| Mean Temperature | -15632.679 | | -24021.596\*\*\* |  | |  |
|  | (8519.145) | | (6342.668) |  | |  |
|  |  | |  |  | |  |
| Heat Days | -299.130 | | -108.766 |  | |  |
|  | (563.062) | | (583.698) |  | |  |
|  |  | |  |  | |  |
| SAFEX Price | -66.352\*\*\* | | -62.674\*\*\* | -42.570\*\*\* | | -22.972\*\*\* |
|  | (11.510) | | (9.129) | (13.647) | | (6.704) |
|  |  | |  |  | |  |
| Net import | 0.099\*\*\* | | 0.076\*\*\* | 0.075\*\*\* | | 0.025\* |
|  | (0.027) | | (0.016) | (0.025) | | (0.014) |
|  |  | |  |  | |  |
| Price Deviation |  | |  |  | | 0.388\*\*\* |
| Lag |  | |  |  | | (0.024) |
| N | | 2304 | 2304 | | 2304 | 2232 | |
| Cluster | | 32 | 32 | | 32 | 32 | |
| *Anderson canon. corr. LM statistic* | | - | 28.782 | | 33.262 | 26.540 | |
| *Cragg-Donald Wald F statistic* | | - | 14.251 | | 16.501 | 13.147 | |

Notes: Standard errors in parentheses. \* *p* < 0.10, \*\* *p* < 0.05, \*\*\* *p* < 0.01. Specifications of the models: (1): FE, (2): FE-IV (using weather variables), (3) FE-IV (using year fixed effect), (4) FE-IV (difference in month price deviations). Cragg-Donald Wald statistic and Anderson-Canon correlation statistic are distributed as chi-squared with degrees of freedom of 1.

Table 4. Robustness Checks for Determinants

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |

Figure 1. Map of Major District Markets in Zambia

A close up of a map

Description generated with high confidence

Figure 2. Monthly shares of FRA purchase and sales

A close up of a map

Description generated with high confidence

Table A1. First stage results for Instrumental Variables

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | (1) | | (2) | | | (3) | |
|  |
|  | FRA  Purchase | FRA Sales | | FRA Purchase | FRA Sales | FRA Purchase | FRA Sales |
| Predicted\_Purchase | 0.002\*\*\* | 0.000 | | 0.002\*\*\* | 0.000 | 0.002\*\*\* | 0.000 |
|  | (0.000) | (0.000) | | (0.000) | (0.000) | (0.000) | (0.000) |
| Predicted Sales | -0.001 | 0.001\*\*\* | | 0.000 | 0.001\*\*\* | -0.002 | 0.001\*\*\* |
|  | (0.001) | (0.000) | | (0.001) | (0.000) | (0.001) | (0.000) |
| Days without rain | -2.696\* | 0.121 | |  |  |  |  |
|  | (1.586) | (0.125) | |  |  |  |  |
| Precipitation | 0.108 | 0.005 | |  |  |  |  |
|  | (0.072) | (0.006) | |  |  |  |  |
| Mean Temperature | 20.933 | -3.882 | |  |  |  |  |
|  | (33.896) | (2.672) | |  |  |  |  |
| Heat Days | -2.938 | 0.180 | |  |  |  |  |
|  | (3.324) | (0.262) | |  |  |  |  |
| SAFEX Price | -0.014 | -0.001 | | 0.084 | -0.005 | -0.039 | 0.004 |
|  | (0.052) | (0.004) | | (0.083) | (0.007) | (0.043) | (0.003) |
| Net import | -0.000\*\* | -0.000\* | | -0.000 | -0.000\*\*\* | -0.000\*\* | -0.000\*\*\* |
|  | (0.000) | (0.000) | | (0.000) | (0.000) | (0.000) | (0.000) |
| Price lag |  |  | |  |  | -0.109\* | -0.002 |
|  |  |  | |  |  | (0.058) | (0.005) |
| N | 2304 | 2304 | | 2304 | 2304 | 2232 | 2232 |
| R2 | 0.821 | 0.214 | | 0.823 | 0.221 | 0.825 | 0.218 |