

# Frequently Asked Questions

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## 1. How does BAMB set producers prices?

This question arises due to the general perception that producer prices offered by BAMB are low. The reality is that BAMB has to ensure that producer prices are at par with prevailing market prices for crops in the region since local produce competes with imports at the marketplace. To do this BAMB uses a regional price discovery mechanism known as the South African Futures Exchange (SAFEX) as a benchmark. SAFEX prices in turn are derived from international prices that are discovered through an international grain exchange, the Chicago Board of Trade (CBoT). Actually BAMB sometimes offers prices that are higher than market prices as an incentive to encourage farmers to produce certain crops like cowpeas, beans and groundnuts.

## 2. Why does BAMB need to make a profit since it is a Government institution?

BAMB is required by the Act to generate enough revenue to cover its operating costs which include administration, transport, handling, insurance costs, allocations to the Stabilization and Development Funds as well as to pay dividends to Government. This requirement compels BAMB to put a mark-up when it sets selling prices.

## 3. Why does BAMB buy produce from farmers at low prices and immediately sell the same produce at exorbitant prices?

Since grains are perishable, BAMB has adopted a *first-in, first-out* policy for selling its grain stocks to avoid losses that may occur due to aging. As such when a new crop is received at harvest time it is usually not sold ahead of the older stock that would in most cases have been bought at prices that differ from the prevailing market prices. For example in 2008/2009 BAMB bought sorghum at P85.00/50kg bag and the average buying price in 2009/2010 is P67.50/50kg. With a modest mark up that BAMB adds to the cost of the product, these two crops cannot be sold at the same price.

## 4. Why is it that some of the millers prefer to buy cereals from neighboring countries?

Millers are free to import if imports are cheaper. However one may wonder why imports can be cheaper if indeed BAMB sets producer prices in line with prevailing market prices. The disharmony in the price of imports and local produce usually occurs because to fulfil its mandate BAMB has to stockpile at harvest time. This exposes BAMB to market risks because market prices may crash while BAMB is still holding large inventories of expensive stocks. In other countries like South Africa where there is no organization like BAMB it is the farmer and/or the miller who bears the market risk depending on which one of them owns the crop at the time the price collapses.

## 5. What role does BAMB play to promote local production?

- a. In order to fulfil its mandate of providing a stable market for grains and to ensure fair distribution throughout Botswana, BAMB has established network of 11 branches that are spread throughout the country. These are more prominently placed in areas with higher potential for arable production where produce is procured and stored and at major population centres where it is sold. BAMB has capacity to store over 100,000 metric tons (Mt) in three silo facilities and warehouses and has established a capacity to distribute produce from areas of production to the market. For instance, sorghum is mostly produced in Pandamatenga while a large portion of its market is in the Southern part of the country.
- b. Availability of inputs is a critical factor for improving crop production. BAMB sells inputs such as fertilizer, high yielding hybrid seeds, agro chemicals of various types and packaging materials to farmers.
- c. The fluctuation of market prices makes it difficult for farmers to plan their production which affects their access to working capital (seasonal loans). This can discourage them from producing thus in turn may reduce the quantities sold to BAMB. In order to increase stocks procured locally, BAMB has introduced contract farming, whereby a farmer is contracted to produce an agreed quantity of a product at an agreed price ahead of planting.

## 6. What are the benefits of contract farming?

Contract farming protects the participating farmer against unexpected adverse movements of market prices. This protection is more pronounced with the “minimum price contract” that BAMB uses because the contract price is the minimum a participating farmer is paid if market prices collapse, but they will get the higher of the two if market prices rise above the contract price. Armed with a contract a farmer can confidently prepare seasonal budgets and apply for a working capital loan from financial institutions.

Contract farming is also beneficial for BAMB as it assures BAMB of delivery at the onset of the harvest season.

7. Who qualifies for contract farming?

Local producers who are able to produce 10 Mt. or 200 x 50kg bags of any of the crops listed under contract. **NB** 1 metric ton is 20 x 50kg bags

8. Small scale farmers cannot produce 200 bags? How would they benefit from the contract farming scheme?

BAMB encourages small scale farmers to form marketing groups. They can nominate a representative to sign a contract on their behalf. Most people though are quick to point out that this will not work because Botswana typically fail to achieve much in groups. If it is not possible to cooperate, then a small scale farmer planting about five hectares can produce 200 bags if they commit to working hard to reach yield levels of 40 bags/ha that research has shown to be attainable under our climatic and soil conditions.