Fundamental causes of mealie-meal crisis

Auckland Kuteya and IAPRI team

Presented at the High Level Government Policy Meeting, Chaminuka Lodge, Lusaka

April 13th, 2013
Since 2010, Zambia has achieved a total maize production of 8.6 million MT…Double our consumption requirement!

Projected maize surplus from 2010 to 2012 was a total of 4.4 million MT

Of which FRA purchased 3,668,696 MT or 83%
The problem

- Maize and mealie meal shortages
- High mealie meal prices
- Why this shortage and high mealie meal prices amidst three successive bumper harvests?
Evidence of a problem

- Dec 2012 – The President threatened to reintroduce price controls and cancel millers’ licenses for “exploiting consumers” by selling at more than K50,000/25kg bag

- February 2013 - Mealie meal prices skyrocketed to over K100,000 in some parts of the country like Solwezi and Kasama
  - FRA resorted to selling subsidized maize directly to households instead of millers in Solwezi and Kasama

- March 2013 – Government allowed millers to adjust wholesale price to K55,000/25kg bag of breakfast to avoid continued mealie meal shortages
Who do we blame?

- Informal cross border trade, especially DRC
- Millers
- Traders and Retailers
Fundamental Causes
Fundamental Cause #1:
Undermining competition in maize market

Constant 2011 price per kg

- **Wholesale maize grain**
- **Retail breakfast meal**

Pre-FRA Subsidy
Post FRA Subsidy

Month (year)

2011
2012

Indaba Agricultural Policy Research Institute
Why high m/meal retail prices despite FRA subsidies?

- Very little benefits if any have been transmitted to Zambian consumers from FRA’s maize subsidies to millers

- The question is not WHO is capturing the maize subsidies from FRA…

- The more important question is:

- WHY are retailers or millers able to keep prices so high despite subsidies?
Informal sector squeezed out

- Pricing policy of lower sale price than purchase price squeeze out informal milling sector
Shrinking market margins due to competition: Lsk

Decline in margins driven by competition from informal grain marketing and processing.
Retailers or millers are able to keep prices so high despite subsidies due to lack of competition from informal sector.

If grains were readily available in markets the informal milling system could be booming right now.

We brought this upon ourselves by:
- buying most of marketed maize grain through FRA
- selling at too low price to allow non-subsidized millers to compete
- training millers not to actively source maize on their own
- training millers to sit back and wait for FRA subsidized maize.
Fundamental Cause #2: Maize wastage

- Though we do not know extent of loss, there is significant spoilage of FRA maize
Overall effects

1. Informal traders and retailers squeezed out of the market
2. Overall surplus diminished by spoilage/wastage

This has made Zambia’s maize marketing system vulnerable to regional supply and demand shocks
The SHOCK: South Africa redirects maize exports

*2012 (28 Apr 2012 - 8 Mar 2013)
Lost opportunity

- Changing direction of SA maize trade should be an opportunity for Zambia

- However

- Increased demand for Zambian maize in the region has exposed the problems in our marketing system
  - Leading to shortages and high prices of mealie meal
Estimated costs to national treasury through FRA maize marketing
### Total estimated loss to national treasury through FRA maize marketing from 2010 - 2012

<table>
<thead>
<tr>
<th>Estimated costs per 50kg bag</th>
<th>ZMW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase price</td>
<td>65</td>
</tr>
<tr>
<td>Transport cost</td>
<td>15</td>
</tr>
<tr>
<td>Storage/handling costs</td>
<td>10</td>
</tr>
<tr>
<td>Financing @ 20%</td>
<td>13</td>
</tr>
<tr>
<td>Cost of storage losses @ 7%</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td><strong>108/bag</strong></td>
</tr>
</tbody>
</table>
# Total estimated loss to national treasury through FRA maize marketing from 2010 - 2012

<table>
<thead>
<tr>
<th>Estimated FRA sales</th>
<th>ZMW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales price range/50kg bag (KR20 – 60)</td>
<td>40</td>
</tr>
<tr>
<td>Average loss/50kg bag [total costs – sales price]</td>
<td>68</td>
</tr>
<tr>
<td></td>
<td>(1,360/MT)</td>
</tr>
</tbody>
</table>

- Total purchases of maize grain 3.7 million MT
- Grain storage losses (7%) gives us 210,000 MT
- Still in storage as at March 20th this year: 680,000 MT
- Total grain sold (3.7mmt – 0.2mmt – 0.7mmt) 2.8 million MT
Total estimated loss to national treasury through FRA maize purchases from 2010 - 2012

- Total estimated operating LOSS:
  total grain sold x average loss/MT = (2.8 x 1,360)

  → 3.8 billion kwacha rebased

- Loss equals the Euro bond
Total estimated loss to national treasury through FRA from 2010 - 2012

- Total estimated operating **LOSS** by FRA 2010-2012: total grain sold x Average loss/MT = (2.8 x 1,360,000) → 3.8 trillion kwacha unrebased

- Greater than total budget for Zambia’s health sector in 2013!
Conclusions

- Millers are in business
- Maize marketing system is not functioning effectively
- Large-scale wastage/spoilage of maize
- Informal CBT, millers and traders are not root causes
Policy options to consider

- Encourage and facilitate informal maize marketing and processing to reduce price instability
- Create conditions that facilitate private sector to invest in milling companies esp in rural areas – CEEC, tax incentives
- Wean millers off of maize subsidies
- Consider storage contracts for proper grain storage (private storage, warehouse receipt system, etc)
- FRA to concentrate only on strategic food reserve
- Acknowledge difficulties in stopping informal CBT and think of maize exports as an opportunity
- Improve investments in key drivers of agric growth
For further information visit:


- [http://www.aec.msu.edu/fs2/zambia/ps50.pdf](http://www.aec.msu.edu/fs2/zambia/ps50.pdf) (FRA effects on maize market prices policy)

Objectives of IAPRI

- To generate and integrate research findings into national, regional, and international policy strategies to promote sustainable agricultural growth as a means to cut hunger and poverty in Zambia
- To conduct, encourage, and support evidence-based policy research and analysis in Zambia or elsewhere into all aspects of agriculture
- To support the development and strengthening of capacity for policy research, analysis and outreach of public and private institutions in Zambia
IAPRI WEBSITE/ADDRESS

  or

- [http://www.aec.msu.edu/fs2/zambia/index.htm](http://www.aec.msu.edu/fs2/zambia/index.htm)

- Plot No. 26A Middleway Road, Kabulonga
  PostNet 99 Kabulonga
  Lusaka, Zambia
  Tel: +260 211 261194-97
  Fax: +260 211 261199
Data sources

- CSO data on maize meal price
- AMIC data on wholesale maize grain prices
- Prices deflated by CSO’s CPI (constant 2011 prices)
- Analyzed four markets of Lusaka, Chipata, Ndola, and Kasama, which is 58% of urban population