Fundamental Causes of High Mealie Meal Prices Amidst Bumper Harvests

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Presentation at the SIDA/FINNIDA Meeting,
SIDA Conference Room, Lusaka

February 25th, 2013
Maize bumper harvests and FRA purchases since 2010

- 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

i. Maize shortage

ii. Mealie meal shortage

iii. 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 skyrocketing to over K100,000 in some parts of the country like Solwezi and Kasama
  - FRA resorts to selling subsidized maize directly to households instead of millers in Solwezi and Kasama
Map of Zambia showing provincial towns

Democratic Republic of Congo

Solwezi

Kasama

Tanzania
Who does the Government blame?

- The scapegoats are:
  - Informal cross border trade, especially DRC
  - Millers
  - “Unscrupulous” traders and retailers
Fundamental Causes
Fundamental Cause #1:
Selective subsidies to large millers: Lusaka market

Retail breakfast meal

Wholesale maize grain

Pre-FRA Subsidy

Post FRA Subsidy

Month (year)

2011

2012

Constant 2011 price per kg
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

- Government pricing policy of lower sale price than purchase price squeeze out informal milling sector
- Millers who do not receive subsidized maize cannot compete in this environment
Shrinking market margins due to competition: Lsk

Decline in margin 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.

The government brought this upon itself 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:
Dysfunctional maize marketing system

- Three market distortions:
  i. Having FRA buy all the maize
  ii. Raising the price surface
  iii. FRA selling at lower price that creates no space for non-subsidized firms to compete in this environment

- The combination of all 3 distortions lead to maize shortages and high prices amidst surplus production

- So the maize marketing system in Zambia is distorted, manipulated and not functioning effectively
Fundamental Cause #3: Maize wastage

- Though we do not know extent of loss, there is significant spoilage of maize
- Highly related to FC#2
Fundamental causes exacerbated by:

- Drought in USA/Mexico which caused record high global maize prices
  - Maize production in the USA went down by 17% compared to 2011 harvest season (USDA).

- SA exporting most of her maize surplus to Mexico rather than to DRC

- High demand pressure on Zambia’s surplus maize from 5.6 million people in Katanga province – a region with low food production
Conclusions

- Millers are doing what any self-interested businessman would do if they had the opportunity;
- Government can stop this behaviour by stopping subsidization of selected millers which prevents non-subsidized millers from operating;
- Ultimately, FCs are all related to government behaviour;
- The maize marketing system is not functioning effectively;
- There is large-scale wastage/spoilage of FRA maize;
- Government’s scapegoats (CBT, millers and traders) are not fundamental causes but symptoms of a broken system.
Policy options to consider

- Create enabling environment for informal maize marketing and processing to reduce price instability
- Wean millers off of maize subsidies
- Consider storage contracts for proper grain storage (warehouse receipt system)
- Acknowledge difficulties in stopping informal CBT and think of maize exports as an opportunity
Thank You

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)