Understanding the implications of multinational investment in African grain wholesaling: A case study of Zambia

Nicholas J. Sitko and Brian Chisanga

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Introduction

- Multinational capital is flowing into African agri-food systems and altering how food is produced and consumed;

- What is driving the capital inflows:
  - growing urban demand;
  - increasing uncertainty over global food prices; and
  - higher potential profit margins relative to global averages.

- This transformation has potential ramification on:
  - Poor small-scale producers, displacement of traditional food markets by supermarkets

- But the effects of this transformation on cereal and oilseed grain wholesaling is often underappreciated
Introduction

- Potential effects of increased multinational capital inflows in grain wholesaling
  - **Potential positive outcomes:**
    - improve competition within the intermediary markets
    - lower margins in food marketing systems
  - **Potential negative outcomes:**
    - squeeze out domestic competition in the sector
    - conduit for multinational firms to gain control of domestic food markets - input supply, domestic processing and production
The maize value chain
The wave of investments in grain wholesaling in Zambia

- 2002: MNF played an inconsequential role
- 2008: Major investments spurred by the global food price spike
- 2014: Control 80% of trade in maize and soy beans

- Similar investments in grain producing ESA: Malawi, Tanzania, Kenya, and Mozambique.
...The wave of investments in grain wholesaling

- **Three pathways** for this wave of investments:

  1. Expansion of existing cash crop operations
     - particularly cotton in Zambia-into the grain sector, e.g. Cargill,

  2. Extension of established African operations into new African markets
     - migration of established South African firms-e.g. Afgri and SenWes

  3. Acquisition of an existing domestic firm or establishment of a new domestic subsidiary
     - NWK Agri-Service, in partnership with Louis Dreyfus, acquired Dunavant Cotton Company
The wave of investments in grain wholesaling

- **Diverse investment interests** such as production, financing, input supply, direct food and fiber production, and food processing;

- **Concern is:** firms will seek to gain greater control of the production and marketing systems through the vertical integration;

- Of the 10 multinational firms in Zambia:
  - 2 have acquired shares or outright ownership of processing firms;
  - 2 are involved in commercial agricultural production; and
  - 3 three are involved in input supply.
Domestic smaller firms have the \textit{social capital} that multinationals do not have.

Comparative advantage of multinational firms is access to cheaper financing.

Through cheap financing-MNF provide credit to smaller scale grain buyers to buy grain on their behalf.
Multinational integration into domestic markets

- If multinational capital injections into local wholesale markets can drive competition in assembly markets, then this investment will prove beneficial;

- But if the provision of capital to these local traders limits their available markets then the effect will be to decrease price competition throughout the local market networks.
Multinational integration into domestic markets

- Cheap financing also supports multinationals’ integration into domestic grain market structures by enabling investment in grain storage and **seasonal arbitrage**;
Multinational integration into domestic markets

- Wholesale maize prices in Zambia increase by 48% between May and January, representing a substantial profit opportunity for firms willing and able to store grain;

- In Zambia, storage infrastructure has traditionally been concentrated in the hands of the state.
Smallholder farmers’ and local wholesalers perspectives

- Small holders’ views are that multinational firms:
  - utilize weighing scales are more reliable than local traders
  - provide additional services, including SMS-based market updates, input credit in some cases, and extension advice, and;
  - they offer more competitive prices

- Two primary ways in which multinational investment can effect market competition:
  - through the expansion or contraction of wholesale market opportunities within local markets
  - Policy advocacy efforts.
A decline in wholesaling margins indicates increasingly competitive conditions, which would be beneficial to both producers and consumers;

Between 2008/09 and 2013/14, wholesale margins for maize in Zambia declined from $69/ton to $14/ton;

This is driven by both an increase in the price paid to acquire grain, which rose 16 per cent in this period, and a decline of 9.6 per cent in average selling;

This is indicative of an increasingly competitive wholesale grain market.

However, with the prevailing margins, some smaller scale domestic wholesalers suggest it is increasingly difficult to remain in business.
## Trends in grain wholesaling margins

<table>
<thead>
<tr>
<th>Cost item in US$ per ton</th>
<th>Marketing Season</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour and handling</td>
<td>14</td>
</tr>
<tr>
<td>Fumigation</td>
<td>1.3</td>
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<tr>
<td>Transportation</td>
<td>36</td>
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<tr>
<td>Maize purchase price</td>
<td>192</td>
</tr>
<tr>
<td>Total</td>
<td>243</td>
</tr>
<tr>
<td>Selling prices (into-mill-price)</td>
<td>312</td>
</tr>
<tr>
<td>Margin</td>
<td>69</td>
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</tbody>
</table>
The government has expanded its role in smallholder grain markets through its FRA operations;

The FRA offers pan-territorial prices and therefore tends to pull up average farm-gate;

At the same time, the government sells maize to millers at prices lower than the purchase price in order to maintain low consumers prices of mealie meal (a staple food in Zambia).
Conclusions

- The wave of multinational investment into Zambia’s grain wholesaling sector has thus far proved broadly beneficial to the performance of the market;
- Expansion of assembly trading activities-through credit to wholesale markets
- Sharp decline in margins indicates high efficiencies, yet lower volume traders, cannot profitably remain in the market under current conditions
- Anticipate a steady rise in wholesaling margins as these traders exit the sector
...Conclusions

- Addressing differences in the cost of credit for domestic and multinational firms is a potentially important point of leverage,
Thank You

http://www.iapri.org.zm/
Email: info@iapri.org.zm

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