High Mealie-Meal Prices Amidst Bumper Harvests in Zambia

Auckland Kuteya and T.S. Jayne

Presentation at the Sida Meeting,
IAPRI, Lusaka
January 23rd, 2013
Objectives

- To identify the cause of maize shortage despite a reported bumper harvest/surplus in 2012
- To guide policy discussions on how to avoid maize shortages and stabilize mealie meal prices
Recent developments affecting national food security in Zambia

- Sept. 2011 – Govt initiates maize subsidy (K20,000/50kg)
- Feb. 2012 – MAL announces FRA would only buy enough for strategic reserve - 500,000 mt
- May 2012 – MAL reports 2.8 million tons of maize production (~1.4 mmt national surplus)
- July 2012: FRA begins maize purchases at 65,000 kw/50kg
- Oct. 2012: FRA buys > 1.0 mmt; ceases maize subsidy
- Nov 2012 – Vice President confirms mealie meal shortage on Copperbelt as prices skyrocket to K75,000/25kg bag
Recent developments (cont’d)

- Dec. 2012 – FRA begins to subsidize maize to millers at K60,000/50kg bag but mealie meal prices still remains high
- Dec. 2012 – The President threatens to reintroduce price controls and cancel millers’s licenses for exploiting consumers by selling at > KR50/25kg bag of breakfast meal
- Jan. 2013 – Republican President meets millers and resolve to reduce a 25kg bag to KR47 from roughly KR55
- Jan. 2013 – Millers attribute maize meal price increases to traders and retailers over whom they don’t have control
  - And some retail traders continue to sell a 25kg bag at more than KR50 in defiance to the President’s directive
What is the problem?

- Why is there shortage of mealie meal amidst three successive maize bumper harvests?

→ maize marketing system in Zambia is distorted, manipulated and not functioning effectively
DATA AND METHODS

- 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
RESULTS
Lusaka: wholesale maize and retail breakfast meal

- **Wholesale maize grain**
  - Pre-FRA Subsidy
  - Post FRA Subsidy

- **Retail breakfast meal**

<table>
<thead>
<tr>
<th>Month (year)</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>M1</td>
<td>K1,200</td>
<td></td>
</tr>
<tr>
<td>M2</td>
<td>K1,600</td>
<td></td>
</tr>
<tr>
<td>M3</td>
<td>K1,800</td>
<td></td>
</tr>
<tr>
<td>M4</td>
<td>K2,000</td>
<td></td>
</tr>
<tr>
<td>M5</td>
<td>K2,000</td>
<td></td>
</tr>
<tr>
<td>M6</td>
<td>K1,800</td>
<td></td>
</tr>
<tr>
<td>M7</td>
<td>K1,600</td>
<td></td>
</tr>
<tr>
<td>M8</td>
<td>K1,200</td>
<td></td>
</tr>
<tr>
<td>M9</td>
<td>K1,000</td>
<td></td>
</tr>
<tr>
<td>M10</td>
<td>K1,000</td>
<td></td>
</tr>
<tr>
<td>M11</td>
<td>K1,200</td>
<td></td>
</tr>
</tbody>
</table>

---

Indaba Agricultural Policy Research Institute
FRA maize subsidies: not a cost-effective way to ensure food security

- The evidence shows that consumers received very little benefit from the FRA subsidy to millers.

- Through maize subsidies, the state loses about 2% of total GDP (~ 2 trillion kwacha).

  - High opportunity cost – how many foregone schools, hospitals, roads, farmers trained, etc.
Selective subsidies un-level playing field

Despite its contribution, the informal milling sector (hammer mills) is excluded from FRA maize subsidy
All maize purchasing policy of FRA affect the informal milling industry

- Not all millers receive heavily subsidized grain especially the informal milling sector
- Over time, those who cannot obtain tend to lose market share and may exit the market
- All maize purchasing policy of FRA leaves very little maize for the informal milling sector (hammer mills)
Market channels reduction for farmers

- Government has introduced strategic interaction with millers such that millers are compelled to wait for subsidized maize from FRA

- Traders are disadvantaged because millers would rather procure cheap maize from FRA

- As traders curtail their buying operations, this reduces market outlets for farmers
Conclusions

- Only a small percentage of FRA’s maize subsidies to millers have been transmitted to Zambian consumers.
- There is little evidence that the FRA subsidy to millers is improving national food security.
- Selective subsidies to particular millers disadvantage others and adversely affect competitiveness resulting into a concentrated maize marketing system.
- Mealie-meal continues to sell over KR60/25kg in most retail shops despite presidential directive for KR50/bag.
Policy options to consider

- Government to make its operations in the maize market more predictable
- Wean off millers from maize subsidy dependency
- If government wishes to subsidize maize meal price, consider other policy instruments
- Acknowledge difficulties in stopping porous CBT
- Govt balance sheets to factor in CBT maize exports
- Government should think of maize exports as an opportunity
Questions that need Answers

- Is re-introducing price controls in a liberalized economy the solution?

- Is cancelling/revoking trading licenses to millers and retail shops the way forward?
Thank You

For further information, visit:

(Is the Government of Zambia’s Subsidy to Maize Millers Benefiting Consumers?)