Did the removal of consumer subsidies in 2013 lead to higher mealie-meal prices?

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Background

- High mealie meal prices in most parts of Zambia sparked public debate in 2013;
- CSO reported that prices for breakfast and roller meal in December 2013 were 20% and 21% higher than 2012;
- These price rises were preceded by the removal of subsidies to millers by FRA in May 2013;
- Normally, December to April marks the ‘lean’ period for Zambia’s rain fed agricultural system;
- But the price rise of December 2013 have been seen to be excessively high;
- Popular opinion suggests this is due to monopolistic pricing by milling firms and/or the removal of millers subsidies by FRA.
The main objectives are as follows:

- To assess whether the **2013 price increases** were due to **uncompetitive market behaviors** by commercial milling firms; and

- To determine whether the price rises were due to the **removal of maize subsidies** to millers by the Zambian government.
Questions to be addressed?

We asked two important questions:

- How do the current **mealie meal prices** compare to historical prices?

- Are the **current margins** between mealie meal and wholesale maize prices **high relative to historical margins**?
The role of price subsidies in the economy?

- **Maize price subsidies** in Zambia have been implemented through the FRA;

- In general subsidies attempt serve two distinct purposes:
  - To **lower consumer** prices; and
  - To **raise producer** prices;

- **Producer price subsidies**: entails pan-territorial pricing to incentivize farmers increase maize production – **still in place**;

- **Consumer price subsidies**: The subsidy to millers which started in September 2011 to confer price benefits to consumers-**discontinued** because they did not **bring down mealie meal prices**.
Data and Methods

- CSO data on retail breakfast meal prices;
- Wholesale maize grain prices from AMIC and were updated by IAPRI’s market surveys;
- Historical prices adjusted to 2013 constant prices (ZMW) using CSO’s CPI;
- We analyzed two markets: → Lusaka – major urban centre
  → Mwinilunga - far flung area;
- The mill-to-retail market margins and trends in these margins were analyzed using a linear econometric model.
Findings

Five main study findings
1. The inflation adjusted prices of mealie meal in December 2013 were within normal historical bounds.

Fig1: Lusaka maize and mealie meal prices: 2000 to 2013
1. The inflation adjusted prices of mealie meal in December 2013 were within normal historical bounds...ctd

Fig 2: Lusaka Dec 2013 mealie meal prices lower than some historical prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Real 2013 prices per kg</th>
<th>Breakfast meal price</th>
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<tr>
<td>2013</td>
<td>2.66</td>
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<tr>
<td>2009</td>
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<td>2008</td>
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<td>2005</td>
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<td>2002</td>
<td>5.11</td>
<td></td>
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<tr>
<td>2001</td>
<td>4.91</td>
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</tbody>
</table>
1. The inflation adjusted prices of mealie meal in December 2013 were within normal historical bounds...ctd

Fig 3: Mwinilunga maize and mealie meal prices: 2000 to 2013
1. The inflation adjusted price of mealie meal in December 2013 was within normal historical bounds...ctd

Fig 4: Mwinilunga Dec 2013 mealie meal prices lower than some historical prices

- Higher prices in Mwinilunga than Lusaka particularly in 2013 reflect:
  - increased cost of transporting maize due to the removal of fuel subsidies
1. The inflation adjusted price of mealie meal in December 2013 was within normal historical bounds…ctd

- In August 2013, we predicted the January 2014 mealie meal prices based on historical data.
  - Predicted price: K66.40 per 25 Kg breakfast mealie meal
  - Actual price: K69.00 per 25 Kg breakfast mealie meal
  - Error: K2.6

- The mealie meal prices were largely predictable using historical data.
2. Seasonal price rise for mealie meal between June and Dec 2013 was consistent with other years

- In Zambia’s rain-fed agricultural system, prices generally rise between the harvest in May/Jun and the “lean” period beginning in December;

- We therefore measured the seasonal price rise of maize meal in 2013 and compare it with previous years since 2000.
2. Seasonal price rise for mealie meal between June & Dec 2013 was consistent with other years...ctd

Fig 5: Lusaka seasonal prices 2013 and selected years

<table>
<thead>
<tr>
<th>Year</th>
<th>Constant 2013 kwacha per kg</th>
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<tbody>
<tr>
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<tr>
<td>2002</td>
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<td>2008</td>
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<tr>
<td>2012</td>
<td>0.57</td>
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<tr>
<td>2013</td>
<td>0.36</td>
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</tbody>
</table>
2. Seasonal price rise for mealie meal between June & Dec 2013 was consistent with other years... ctd

Fig 6: Mwinilunga seasonal prices 2013 and selected years
3. The Proportion of mealie meal in the Basic Needs Basket has been declining

Fig 7: Proportion of Mealie meal in the Lusaka Basis Needs Basket

Source of data: JCTR various years
4. Millers’ margins have declined over time

- **Trends in the price margin** between wholesale maize grain and retail mealie meal prices provides an indication of the changing level of **competitiveness** of the maize meal sector;
  - Indicative of **sectoral efficiency**

- Margins have been narrowing for Lusaka;

- Between **2000 and 2012** the average mill-to-retail margin in Lusaka were **K1.37** per kg,
  - in 2013 this margin had declined to **K0.91** per kg;

- In Mwinilunga we find a **widening market margin** in 2013 relative to the **2000 to 2012**;
  - mill-to-retail market margin fell from K2.20 in 2000 to K1.70 in 2012 per kg but increased to K1.80 in December, 2013.
4. Millers’ margins have declined over time…ctd

- Widening margins likely due to the **disruptions in the performance of maize markets in outlying regions** caused by the concentration of surplus maize by the FRA since 2010;
- This led to **squeezing out of small scale maize traders and hammer millers**;
- **Narrowing of margins** means that maize and maize meal sectors have become increasingly **competitive and efficient**, leading to measurable benefits to consumers;
- Between **2000 and 2010** there were significant investments in maize milling
  - **Large commercial millers** have increased roughly from **25 to 35**.
5. Higher food prices driven by increased regional demand for Zambian white maize...ctd

- There is **high regional demand** for Zambia’s maize because of:
  - the orientation of maize exports to the southern Africa region by South Africa
  - Switching to more yellow maize

- **This is not an obstacle:**
  - By maintaining an **open border policy** on maize trade, Zambia can take advantage of this regional demand to support **income growth** by farmers without having to provide subsidized prices to farmers.
Conclusions

1. High maize meal prices in 2013 are not as the result of uncompetitive market behaviors by mills and maize retailers;
2. Mill-to-retail market margins have steadily declined since 2000, including during the 2013 period;
3. Seasonal price increases in 2013 were within normal historical bounds and lower than in several other years since 2000;
4. Mealie meal constitutes a smaller proportion of basic needs compared to 3-4 years ago.
Conclusions

5. Removal of consumer price subsidies is unlikely to have increased mealie meal prices in 2013 as these subsidies did not lower prices during subsidy period; and

6. Higher food prices driven by increased regional demand for Zambian white maize.
Policy Options

1. FRA’s role in maize market should be confined to management of the **strategic food reserve** to enable more competition in maize market

2. In deficit periods, modalities must be developed to off-load FRA maize at market price to small-scale actors, rather than just commercial mills

3. **Remove export bans** on maize as structural maize deficits in the region may lead to higher farm-gate prices
Thank You

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