OVERVIEW OF THE 2014/15 MARKETING EXPERIENCES

Presented by
Antony Chapoto, PhD

Presented at the Ministry of Agriculture and Livestock Indaba, Government Complex, Lusaka
March 18, 2015
Maize Bumper Harvests: A Curse or Blessing For Zambia?

- Zambia has potential to become a breadbasket for the region.
- Since 2010, Zambia has been having maize surpluses.
  - CFS 2014 projected maize production of 3.35 million metric tonnes in 2013/14 agricultural season
  - FRA had a carryover stock of 597,172 MT
  - FRA once again departed from its budgeted and announced target of 500,000 MT of maize and bought 1,031,303 MT
  - Private sector maize purchases in the 2014/15 marketing season was very low
Food Price Dilemma

A never ending Government struggle!!!

Farmers lobby for higher FRA prices

Lower consumer prices, usually culminating into consumer subsidies

2014/15: K70/50kg, 29% above market price at harvest time
Food Price Dilemma

- Good intentions by government have had negative effects on maize market:
  - FRA market participation has been increasing over time
    - Buying beyond budgeted target
    - Delayed payments
    - Government ad hoc policies reducing private sector participation

- High mealie meal prices despite bumper harvests
Private sector maize market participation

Unpredictable policies

Mistrust between Private sector and Government

Limited private sector investment and market participation
Private sector maize market participation, 2014/15 season

- Sudden policy shifts in the 2014/15 marketing season contributed to reduced private sector marketing participation
  - FRA budgeted purchase target – 500,000 MT
  - By the third week, FRA had already met its announced target of 500,000 MT.
  - Pressure from farmers and politicians for FRA to continue buying
  - Several by-elections at the time and former Vice President Dr. Guy Scott announced that the government was going to buy the entire maize surplus
  - FRA ended up buying more than double the target

- Private sector participation increases in years when government policies and intentions are very clear [eg. 2013/14 marketing season]
The southern and eastern Africa regions in 2013/14 agricultural season experienced good rainfall.

Zambia, South Africa and Uganda stand out as three countries with the largest maize surplus in the region.

DRC, Zimbabwe, and Kenya are the major deficit countries, a market that could potentially be serviced by Zambia.
Zambia’s maize not competitive in the Region

Regional Prices and Zambia Export Parity Prices

<table>
<thead>
<tr>
<th>Country</th>
<th>Maize price in --</th>
<th>Transport cost from Lusaka to --</th>
<th>Duties and fees</th>
<th>Handling costs</th>
<th>Export parity Price from Zambia to --</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zimbabwe (Harare)(^a)</td>
<td>290</td>
<td>65</td>
<td>0</td>
<td>10</td>
<td>215</td>
</tr>
<tr>
<td>South Africa (Randfontein)(^a)</td>
<td>214</td>
<td>140</td>
<td>0</td>
<td>10</td>
<td>64</td>
</tr>
<tr>
<td>Malawi (Lilongwe)(^a)</td>
<td>182</td>
<td>80</td>
<td>0</td>
<td>10</td>
<td>92</td>
</tr>
<tr>
<td>Tanzania (Dar es. Salaam)(^b)</td>
<td>171</td>
<td>150</td>
<td>0</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Mozambique (Beira)(^a)</td>
<td>256</td>
<td>120</td>
<td>0</td>
<td>15</td>
<td>121</td>
</tr>
<tr>
<td>DRC (Lubumbashi)(^c)</td>
<td>300</td>
<td>90</td>
<td>0</td>
<td>10</td>
<td>200</td>
</tr>
<tr>
<td>Kenya (Nairobi)(^b)</td>
<td>243</td>
<td>230</td>
<td>0</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Angola (Luanda)(^d)</td>
<td>183</td>
<td>120</td>
<td>0</td>
<td>10</td>
<td>53</td>
</tr>
</tbody>
</table>

Sources: \(^a\)AFGRI, 2015; \(^b\)http://ratin.net/index.php/kenya; \(^c\)WFP country representative (Personal communication); \(^d\)http://angola.opendataforafrica.org/wxgcxde/commodity-prices-forecast-2015-2019-charts-and-tables#Maize%20(US%24%2Ftonne)
## Current Maize Stock

<table>
<thead>
<tr>
<th>sn</th>
<th>Organization</th>
<th>Maize</th>
<th>Wheat</th>
<th>Rice</th>
<th>Soya Beans</th>
<th>Paddy Rice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GTAZ</td>
<td>148,280</td>
<td>3,400</td>
<td>-</td>
<td>11,340</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>MAZ</td>
<td>88,600</td>
<td>64,361</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>ZNFU</td>
<td>-</td>
<td>-</td>
<td>5,600</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>FRA</td>
<td>1,264,375</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,658</td>
</tr>
<tr>
<td></td>
<td>Totals</td>
<td>1,501,255</td>
<td>67,761</td>
<td>5600</td>
<td>11,340</td>
<td></td>
</tr>
</tbody>
</table>

Source: Stock Monitoring Meeting held on 2 March, 2015 at the Ministry of Agricultural and Livestock
Southern Africa Region

- Drier than average conditions have persisted in Southern Africa as rainfall has already started to decline over many areas.
  - An analysis of cumulative rainfall since mid-February has indicated that a wide area from southeastern Angola, northeastern Namibia, Botswana, southern Zimbabwe, northern South Africa, to southern Mozambique has received only less than 25 percent of its average.
  - This may indicate an early cessation of the rainy season over the sub-region.
Maize Outlook 2015/16

For Zambia

- Prolonged dry spells have persisted in parts of the country especially southern half of country
- In areas where planting was late, crop is still in early grain filling stage and in need of lot of moisture to reach full maturity. The yields are likely to be significantly reduced.
- The persistent dryness could also signify an early cessation of the rainy season similar to the situation which prevailed in the previous season when the rains ended by mid-March in most parts of the country.
- Even with this situation, the country has large stocks on hand, this coupled with the possible below average harvest will translate into exportable surplus in the 2015/16 marketing season.
Opportunities and Challenges

Potential Challenges

• Fear of impending drought spell which may reduce crop forecast 2015/16.
• Treasury continues to lose money due to huge storage costs and losses
• Maize meal prices have not significantly reduced despite the bumper harvest
• There may be ill-informed political pressure to close borders
• 2016 an election year

Opportunities

• Country is more likely to produce a lean surplus
• Current FRA stocks – will minimize the pressure
• Zimbabwe and South Africa are potential markets for Zambia maize if the price is right
• Potential to leverage private sector investment in sector
• If market conditions are right, large farmers can produce more maize for local and export market under irrigation
## National maize requirements

<table>
<thead>
<tr>
<th>Maize Requirements</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Human consumption</td>
<td>1,532,194</td>
</tr>
<tr>
<td>(ii) Strategic reserves</td>
<td>500,000</td>
</tr>
<tr>
<td>(iii) Industrial requirements</td>
<td></td>
</tr>
<tr>
<td>- Breweries</td>
<td>245,630</td>
</tr>
<tr>
<td>- Stockfeed</td>
<td>110,000</td>
</tr>
<tr>
<td>(iv) Other</td>
<td></td>
</tr>
<tr>
<td>- Grain retained for other uses</td>
<td>40,000</td>
</tr>
<tr>
<td>- Losses</td>
<td>167,534</td>
</tr>
<tr>
<td>- Structural cross-border trade</td>
<td>200,000</td>
</tr>
<tr>
<td><strong>Total requirements</strong></td>
<td><strong>2,795,358</strong></td>
</tr>
</tbody>
</table>

Source: MAL 20014, National Food Balance Sheet

Current stocks + 2015 harvest > National requirement
Estimated Loss to National Treasury through FRA, 2014/15

- Assumptions per 50kg bag:
  - Purchase price: KR70
  - Transport and logistics cost: KR10
  - Storage Costs: KR1.5/month (KR12 for 8 months)
  - Financing @ 20%: KR14
  - Cost of storage losses @ 15%: KR10.50
  - Total cost: KR116.50/50 bag
## Estimated Loss to National Treasury through FRA, 2014/15

<table>
<thead>
<tr>
<th>Description</th>
<th>ZMKR</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total cost of 2013/14 carryover stock (597,192 MT)</td>
<td>1,009,493,357</td>
<td>181,988,732</td>
</tr>
<tr>
<td>2. Estimated costs of 1,031,303 MT purchased in 2014</td>
<td>1,747,594,499</td>
<td>286,490,901</td>
</tr>
<tr>
<td>3. Gross costs (1+2)</td>
<td>2,757,087,855</td>
<td>468,479,634</td>
</tr>
<tr>
<td>4. Net value of carry over stock at Oct’14 export prices</td>
<td>650,252,509</td>
<td>106,598,772</td>
</tr>
<tr>
<td>5. Net value of 2014 crop at 2015 FRA prices</td>
<td>1,283,353,453</td>
<td>210,385,812</td>
</tr>
<tr>
<td>6. Gross Revenue (4+5)</td>
<td>1,933,605,962</td>
<td>316,984,584</td>
</tr>
<tr>
<td>7. Estimated Loss to the Treasury (6-3)</td>
<td>823,481,893</td>
<td>151,495,050</td>
</tr>
</tbody>
</table>

Source: Chapoto et al, 2015 for detailed assumptions and estimation

Estimated loss is almost double than the total budget for Zambia’s health sector in 2015 and almost equal to education sector!!??
Some Short-term Policy Options

1. Consider making FRA maize stocks immediately available for purchase by both formal and informal traders, hammer millers, and the public.

2. Seriously consider discounting the FRA depot price to increase demand for Zambian maize, which is currently not competitive in the region and minimize losses.

3. Instigate large-scale work-for-food programmes aimed at maintaining rural feeder roads in expectation of the coming marketing season.

4. Consider quoting FRA prices in Kwacha to benefit from current Kwacha devaluation. Zambia’s maize may become more competitive in the region.
Medium to long term policy options

- **Enactment of the Agricultural Marketing Act**
- Limit FRA’s role in maize marketing
- Government should promote private sector storage
- Maintain an open border maize policy in order to make Zambia a reliable supplier
Some critical maize marketing questions for consideration

- How can Zambia manage the current high FRA maize stocks?
  - in the context of a likely regional deficit and domestic food security without disrupting private sector markets
- How do we ensure that future trade and marketing policies are more predictable and transparent in the medium and long-term?
- What are the best alternative ways of procuring the country’s strategic maize reserves?
- What should be the appropriate and sustainable marketing arrangements in Zambia?
Thank you!