UNDERSTANDING THE CAUSES OF THE 2012/13 MEALIE MEAL PRICE SPIKE IN ZAMBIA

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Background

- From 2010 to 2012 Zambia recorded three consecutive bumper maize harvests:
  - Total production of 8.6 million mt
  - Total surplus of 4.6 million mt
  - FRA purchased 3.68 million mt or 80%
Background

- Beginning in Nov. 2012:
  - Stock-outs of maize meal
  - Escalating prices

Figure 1: Nominal Monthly Maize Meal Prices (Breakfast Meal) in Lusaka and Mwinilunga, Zambia
Background

- When the maize meal shortage occurred:
  - FRA held 700,000 mt of maize
  - FRA was subsidizing maize to commercial mills
  - Presidential directive to keep mealie meal prices below KR 50 per 25/kg bag
  - Efforts to stop informal trade across Zambia’s borders
  - Yet prices did not come down until March when green maize became available
Motivation of Our Research

- How could Zambia face maize shortages and high prices despite three consecutive bumper harvests, large subsidies to mills, and significant maize held by the FRA?
Methods

- Semi-Structured Interviews with market actors (Feb.-April 2012)
  - 10 large scale milling firms in Lusaka, Kitwe, and Mufulira;
  - 6 large-scale grain trading firms;
  - 5 small-scale grain traders operating in Soweto market in Lusaka;
  - 18 hammer mills in various Lusaka markets.

- Price, Trade, and Production Data
  - Agricultural Marketing Information Centre (AMIC) and Central Statistical Office (CSO)
  - South African Grain Information Service (SAGIS)
  - CSO Crop Forecast Survey
Context: Zambia’s Private Sector Market

- Since market liberalization, the emergence of two private sector market channels:
  - **Formal Sector:**
    - Large volume transactions
    - Well-capitalized
    - Politically influential
  - **Informal Sector:**
    - Small-volume transactions
    - Limited access to commercial credit
    - Limited political influence despite large role in the market

- **Mediating both of these channels is the FRA**
Context: Changing Role of the FRA

Maize Sales and FRA Purchases in Zambia (2002/03 to 2011/12)

FRA Regime 1: Minority market role

FRA Regime 2: Majority market role
Organization of Zambia’s Maize Market under FRA Regime 1
Outcome of Regime 1

The graph illustrates the variation in the cost of maize grain and breakfast meals over the years 2000 to 2011. The y-axis represents the constant 2011 kwacha per kg, while the x-axis represents the year. The graph shows two distinct lines: one for wholesale maize grain and another for retail breakfast meal. The data indicates a general decrease in the cost over time.
The effects of FRA regime shift on maize market

- A shift in maize procurement strategies by commercial mills from primarily private sector or mill gate purchases to procurement from FRA
  - Reduced competition in wholesale sector
  - Concentrated available surplus in FRA sheds
- Made market vulnerable to supply bottlenecks at FRA depots
- Increased storage losses: Estimated 42% losses at FRA shed compared to 3-5% in private sector storage
FRA Wastage: Petauoke District

Wastage costs a minimum of US$265,000,000!!!
The effects of FRA regime shift on maize market cont.

- Selective disbursement of FRA maize to commercial mills
  - Not all mills benefited equally from FRA disbursement and subsidy
- Mills without consistent access to FRA maize:
  1. Purchase maize from thinly traded private markets.
  2. Lower throughput of maize
  3. Close shop
Subsidies did not bring down mealie meal prices

Constant prices of wholesale maize grain and retail breakfast meal per kg in Lusaka
The effects of FRA regime shift on maize market cont.

- Steep decline in maize production by commercial farms

Commercial Farm Maize Production Trends 2003/04-2012/13
The effects of FRA regime shift on maize market cont....

- Squeezing the informal sector out of the market:
  - Retail maize markets became thinly traded
    - Many traders forced out of business
    - Hammer mills saw sharp decline in throughput
  - Rural consumer became more reliant on commercial mealie meal
  - Decline in the number of traders operating in rural markets
Overall Effect on Market

- Less competition in the market
- Less overall maize supplies than would have been the case otherwise
- Elevated risk of supply bottlenecks around FRA depots:
  - FRA is not designed as a maize marketing institution
  - It is effective at procurement but poor at supplying the market
- Decreased market flexibility and greater vulnerability to unanticipated changes in supply and demand
Zambia’s Maize Market Structure under FRA Regime 2
Change in Demand Conditions

Trends of South Africa’s Maize Grain Exports to Africa and Overseas

*2012 (28 Apr 2012 - 8 Mar 2013)
Zambia’s formal maize exports 2010-2012

Zimbabwe received 61% of Zambia’s formal maize exports during this timeframe.
Formal Maize Meal Exports from Zambia 2010-2012

DRC received 83% of formal mealie meal exports during this timeframe.
The Outcome

- In the context of declining formal exports from Zambia and a redirection of trade by South Africa, Zambia experienced a sharp increase in informal demand from neighboring countries.
  - Drove up prices on the border, which affected national prices.
  - With supplies highly concentrated in the hands of FRA the market was unable to respond effectively.
- Leading to shortages and high mealie meal prices, despite record harvests and adequate aggregate supplies.
Conclusion

- High demand for Zambia’s maize in the medium-term:
  - Trade patterns from SA are likely to remain focused on overseas markets
  - Large FRA presence in the market unlikely to enable Zambia to respond to this

- The FRA’s actions in the maize market between 2010 and 2012 was:
  - Extremely costly
  - Did not yield the intended benefits to consumers
  - Disrupted the performance of a private market that was making substantial improvements
Ways forward

- Key questions that must be answered:
  - What should the future role of the FRA be in Zambia’s maize markets?
  - What policies should be put in place to enable Zambia to ensure that maize prices remain within tolerable ranges while enabling Zambia to be a reliable regional breadbasket?
  - What are alternative policy options for:
    - Bumper harvests?
    - High maize meal prices?
Thank You