Current Policy Issues Affecting Maize Meal Prices in Zambia

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Three Salient Agricultural Policy Challenges

1. How do we ensure access to food at tolerable prices to Zambian consumers to enhance national food security?

2. How to utilize public funds cost effectively to promote national policy objectives?

3. How do we ensure a competitive maize marketing system?
Recent developments affecting national food security in Zambia

- May 2011: Zambia recorded a historical maize bumper harvest of 3.0 MMT (~1.6 MMT national surplus)
- July 2011: FRA buys at 65,000 kw/bag
- Sept 2011: FRA sells at 40,000 kw/bag (20,000 kw/bag after accounting for transport costs to mill gate)
- Nov. 2011: Min. Finance announces 1.2 trillion kw deficit on FRA maize trading account
Recent developments (continued)

- Feb. 2012: Min. Ag. announces FRA would only buy enough for strategic reserve - 500,000 mt
- May 2012 – MAL reported 2.8 million tons of maize production (~1.4 mmt national surplus)
- Oct. 2012: FRA buys > 1.0 mmt; ceases maize subsidy to millers
- Nov 2012 – Vice President confirmed shortage of mealie meal in Copperbelt province as prices skyrocketed to as high as K75,000/25kg bag
What is the problem?

- Why is there shortage of mealie meal amidst two successive maize bumper harvests, and continue spending 2% of GDP on govt maize trading?

→ maize marketing system in Zambia is not functioning effectively
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
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
Policy Challenge # 1:
Do maize subsidies to millers contribute to lower food prices?

Lusaka: wholesale maize and retail breakfast meal

- **Wholesale maize grain**: Price declined by K541
- **Retail breakfast meal**: Constant 2011 price per kg
Lusaka: wholesale maize and retail breakfast meal

- **Wholesale maize grain**
- **Retail breakfast meal**

Constant 2011 price per kg:
- K0 to K2,800

Year:
- 2011
- 2012

Month:
- M1 to M12

Pre-FRA Subsidy:
- Red line

Post FRA Subsidy:
- Blue line

Graph notes:
- Lusaka: wholesale maize and retail breakfast meal

Indaba Agricultural Policy Research Institute (IAPRI)
Chipata: wholesale maize and retail breakfast meal

<table>
<thead>
<tr>
<th>Month (Year)</th>
<th>Retail breakfast meal</th>
<th>Wholesale maize grain</th>
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<tbody>
<tr>
<td>M1-2011</td>
<td>K2,400</td>
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<tr>
<td>M3-2011</td>
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<tr>
<td>M4-2011</td>
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<td>M5-2011</td>
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<td>M6-2011</td>
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<td>M7-2011</td>
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<tr>
<td>M8-2011</td>
<td>K0</td>
<td>K400</td>
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Price declined by K380
Ndola: wholesale maize and retail breakfast meal

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<tr>
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<tr>
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Price declined by K667
Kasama: wholesale maize and retail breakfast meal

<table>
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<th>Price</th>
<th>Declined by K667</th>
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<tbody>
<tr>
<td>Wholesale maize grain</td>
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<tr>
<td>Retail breakfast meal</td>
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Price declined by K667
The evidence shows that consumers received very little benefit from the FRA subsidy to millers.
Policy Challenge # 2: Cost effective utilization of public funds

- Through maize subsidies, the state loses about 2% of total GDP which translates to roughly 2 trillion kwacha
- Not a cost-effective way to ensure urban food security
  - High opportunity cost – how many foregone schools, hospitals, roads, farmers trained, etc.
Policy Challenge # 3: Ensuring a competitive maize marketing system

- FRA subsidy to selected millers provides un-level playing field:
  - Some millers receive heavily subsidized grain, others do not
  - Over time, those who cannot obtain lose market share, may exit the market
    - contributes to further concentration of the milling sector
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.
Policy options to consider in the short run

- Government to make its operations in the maize market more predictable:
  i. Stick to it announced FRA purchase volume
  ii. Set FRA purchase and sale price at the same time
  iii. Set sale price to be $P_s = P_p + MC$
  iv. Whatever the case, set sale price greater than purchase price
Policy options to consider in the long run

1. Wean millers off dependency on subsidized FRA maize

2. If government wishes to subsidize maize meal price, consider other policy instruments for doing so (potential topic for detailed analysis)

3. Acknowledge difficulties in stopping CBT, therefore consider preparing balance sheets that factor in maize exports through CBT
For IAPRI

Any Questions?