



High Mealie-Meal Prices Amidst Bumper Harvests in Zambia

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Objectives

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- 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

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- 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)

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- 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?

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- 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

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- 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

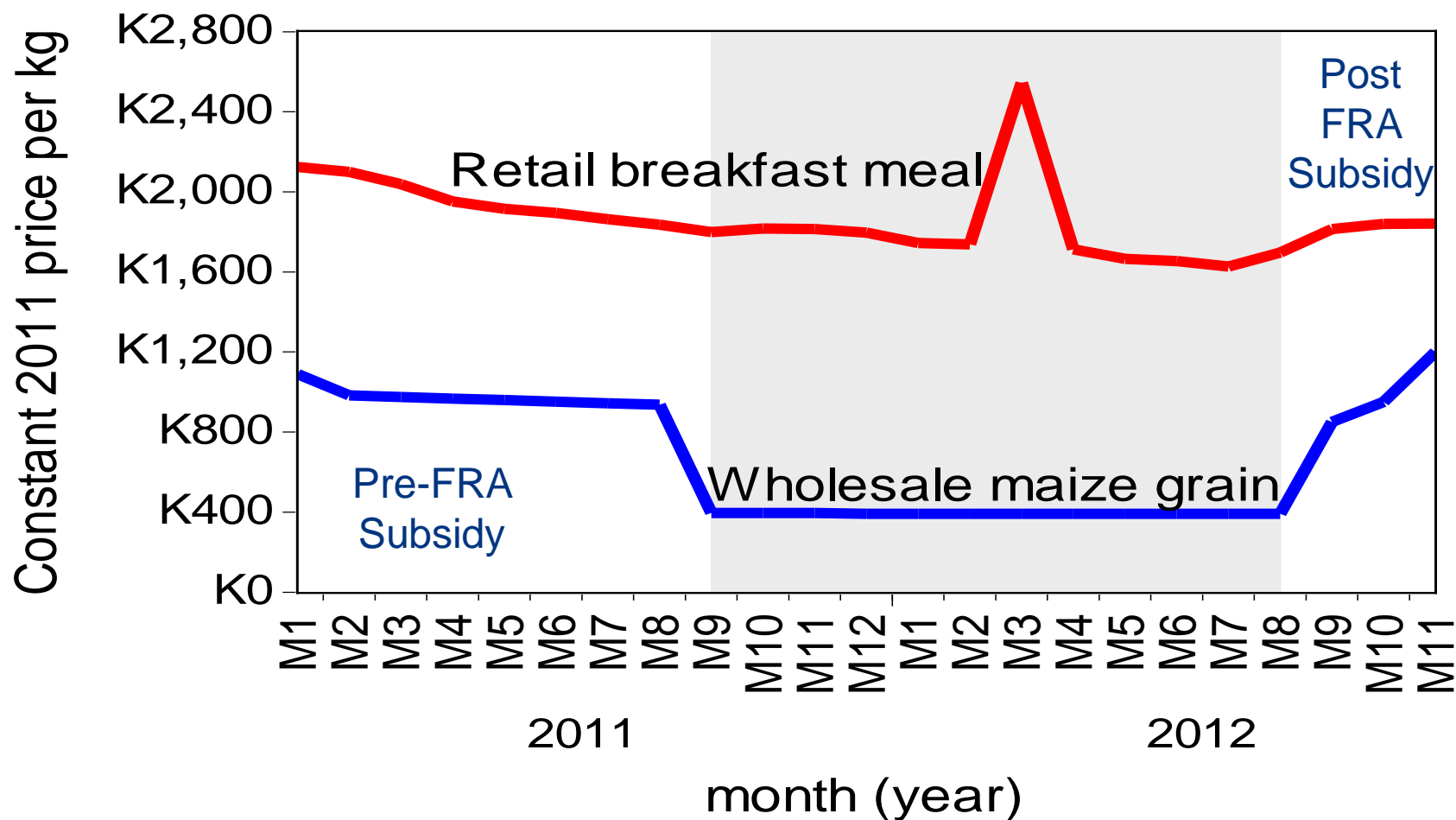
RESULTS

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Lusaka: wholesale maize and retail breakfast meal

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FRA maize subsidies: not a cost-effective way to ensure food security

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- 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

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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

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- 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

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- 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

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- 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

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- 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

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- 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

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For further information, visit:

<http://www.aec.msu.edu/fs2/zambia/wp67.pdf>

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